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REACHING OUT: EXPLORING SME EXPORTING OPPORTUNITIES AND CHALLENGES

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Reaching Out: Exploring SME Exporting Opportunities and Challenges
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Executive Summary

This study by the Western Centre for Economic Research (WCER) examines small business exports to US and other international markets based on a 2007 survey of 387 firms with less than 100 employees. Most firms were in the manufacturing sector, supplemented by a few firms in professional and technical services. All participants were existing or past exporters and apart from a sprinkling of start-ups, most firms in the survey were well established.

Our research was organized around four themes: the role of exports in growth strategies; the marketing chain and how firms find export markets; perceived barriers to exporting (including the thickening Canada-US border since 9/11); and indirect exporting and the role of foreign suppliers. Most of our findings did not differ by province; but where they did, the differences are noted. For interested readers, findings for each province are presented in the appendices.

Our findings suggest that there is a strong role for public policy in improving Western Canada's export performance and in addressing some of the particular challenges and barriers identified by respondents. Following is a summary of the key findings and policy recommendations presented according to our four research themes. Please refer to Chapter 7 for a complete explanation of findings and policy recommendations.

The Role of Exports in Growth Strategies

Findings

- Having a business plan that includes the intent to export is an important determinant of export success in both US and other international markets, although a third of the exporting firms we surveyed did not have a business plan.
- Exporting firms are less inclined to focus on a single market opportunity and more inclined to embrace a variety of opportunities.
- Firms in which the owner either had prior export experience or work experiences in a foreign country were more successful exporters.
- Respondents who included export intentions in their business plans were more likely to also include the requirement for additional capital – especially for entering non-US markets.

Policy Recommendations

- Continue to promote the necessity of a business plan for exporting success and ensure that business planning assistance is available.
- When developing export assistance programs, recognize that most firms depend on a balance of revenues from domestic and foreign customers.
- Offer incentives for business graduates to work with exporting firms, for business graduates to obtain foreign work experience, and for business people with foreign work experience to consider export opportunities.
- Ensure firms have access to affordable sources of financing for export development.

The Marketing Chain: How Firms Find Markets

Findings

- Personal connections are the most important way of entering foreign markets. Agents or distributors were the second most prominent method, and the internet was the third most popular method (especially for non-US markets).

Policy Recommendations

- Develop and implement opportunities to establish personal contacts and promote the use of personal contacts in trade planning seminars and promotional materials; encourage the use of agents and distributors, and ensure that resources exist on the internet to help exporters make connections, particularly in non-US markets.

Challenges and Barriers to Exporting

Findings

- Finding qualified labour is the most prominent barrier for both US and non-US markets.
- Finding market information, the right contacts, financial resources, the right expertise, as well as coping with risk and uncertainty were much stronger barriers to non-US markets than to US markets.
- Problems with customs authorities and obtaining adequate customs information applied to the US market to a much higher degree than to non-US markets.
- Increased Canada-US border security measures are penalizing Canadian firms heavily and firms across the Western provinces experience varying degrees of Canada-US border difficulties.

Policy Recommendations

- Help firms find the labour required for exporting endeavours. Options could include matchmaking services or financial incentives for either firms or potential employees.
- Recognize in trade education and promotional efforts that it is more difficult to begin exporting to non-US markets than to the US market.
- Create mentoring programs or opportunities for experienced exporters to share their skills and experiences with others.
- Work with all trading partners, but especially those in the US, to improve the speed and ease with which Canadian exports enter foreign markets and to provide up to date, accurate, easily accessible customs information.
- Address the inconsistencies in border crossing procedures across the Western provinces.

Indirect Exporting and Foreign Suppliers

Findings

- Western participation in international trade cannot be judged solely by considering exports and the share of revenues derived from exports. Firms play an important role in supplying other exporters, but they also rely extensively on foreign suppliers as part of Western Canada's exporting value added chain.

Policy Recommendations

- More research should be undertaken to gain a better understanding of the role Western Canadian firms play in supplying other exporters. A key area to explore is the potential size of the market for supplying exporters, and how much of that market is being served by foreign firms as opposed to Western Canadian firms.
- More research should be undertaken to gain a better understanding of how international trends in value added chains are affecting Western Canadian firms.

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Why and How did the Western Centre for Economic Research (WCER) do this Project?

This study about small business sales to foreign markets represents the latest initiative in the broader WCER Western Canadian small business research program. We surveyed 387 manufacturing firms located in Western Canada to further our knowledge of export sales and the firms that make them.

We wished to learn more because previous WCER studies have revealed the extremely important role that small business plays in the Western Canadian economy – it is responsible for one of every two jobs over the past decade. These studies have also emphasized a key feature of small business in the West: entrepreneurial activity. The formation of new businesses is 50% greater per capita than in other parts of Canada. With small business playing such a prominent role in the economy of the West, and with export markets providing opportunities for further growth and profit, our research was directed at a better understanding of the issues facing small and medium enterprises (SMEs) as they participate and gain experience in these markets.

In Western Canada there are about 5,000 manufacturing establishments, the vast majority of them small businesses. To increase our knowledge of Western Canadian SME involvement in global trading, our study focuses on the subset of manufacturers that identified themselves as exporters. Our research is organized around four themes:

- the role of exports in the firm's growth strategy
- the marketing chain
- perceived barriers to exports
- the supply chain

Some specific questions we explore include:

- How important are exports in firms' revenues?
- Who owns these firms?
- How old are the firms?
- How are exports reflected in business plans?
- How did they get into the export market?
- How do they envision export markets as a source of growth?
- How have changes in border security arrangements since 9/11 impacted operations?

Important Terms

In this study we use *SMEs* or *small business* for Small and Medium Enterprises which are firms with 100 or fewer employees. We use the following terms to describe export destinations:

US – Export markets in the United States

Other International/Non-US – Export markets in countries other than the US

Foreign, International or All International – Exports to all countries including the US

Number of Respondents

As mentioned above, this study is based on a survey of 387 firms in Western Canada. But it is important to note that the survey contained almost 60 questions and we did not necessarily receive 387 responses for each question. In some cases, a question did not apply to all firms in the survey. In other cases, a question would only apply to a subset of the respondents depending on how they answered a previous question. We therefore take care in the following pages when discussing the findings of the survey to present the number of respondents when the number is relevant or provides further insight into the findings.

Data Base

The data base containing the questions and the responses in the survey can be accessed by contacting the WCER at wcer@ualberta.ca (780-492-2235).

Literature Review

Before this study was undertaken we completed an extensive literature review on exporting. Rather than present the results of the literature review separately, we found it more informative to present relevant findings on specific issues where those issues are addressed in this study. We anticipate that this will make for easier and more informative reading.

1. SME Exports and Growth Strategies

Participation in the export market results from a complex mix of intention, persuasion, encouragement and experience. Some firms – active exporters – have intended to participate in the export market, if not from their beginnings, then at least from an early period of their development. Others – passive exporters – may have drifted into exporting in response, for example, to requests from prospective foreign customers who have learned by word of mouth or otherwise of their product. Still other firms found US or other international opportunities the most effective means of attaining growth in conditions of limited domestic markets. In a small firm, the sense of risk and uncertainty about exporting may be modified by an owner's export experience or a stint of working in a foreign country.

One way of separating some of these issues is through the business plan. A first determinant is whether the firm does, in fact, have an explicit, written business plan, a document likely required to access credit. Besides obvious estimates of cash flow and human resource requirements, the business plan clarifies growth objectives and the markets where the firm hopes to develop new customers or expand an existing customer base. We felt that if a plan existed it might reveal the place that export markets were expected to play, either as an integral part of past development or in terms of future growth.

Which Firms have Business Plans?

It is reasonable to expect that an actively exporting firm would have a business plan but our findings on this topic were somewhat surprising. We found that of the 254 firms that responded to this question, a majority of two-thirds (65.9%) had a business plan but fully one-third (34.1%) did not. Finding such a large percentage of firms without a plan was not anticipated. We also found that the propensity to have a business plan differed by firm size, with larger firms more likely to have business plans (see Table 1.1, below). Among respondents with 1-4 employees less than half possessed a business plan while firms of 50 or more employees usually had a business plan (83.1%).

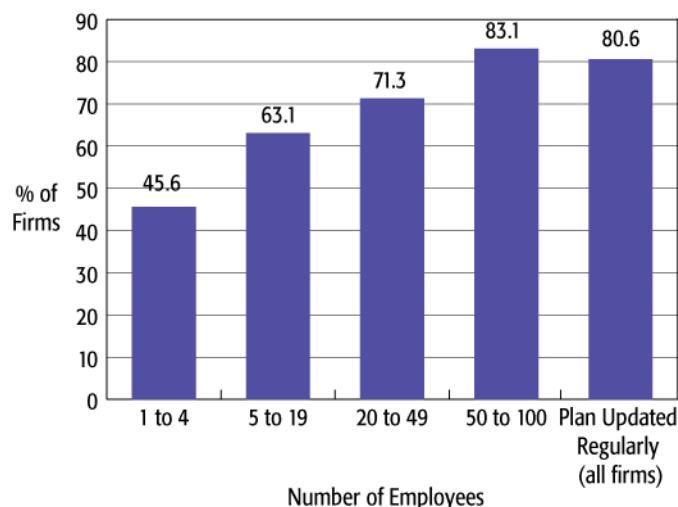
We also observed that having a business plan impacts a firm's level of exporting success. Firms without a business plan had lower mean and median sales revenues from exports, which suggest that the capacity to articulate business objectives in the form of a plan is directly related to export performance. This finding is consistent with the findings of Chambers et al.¹

Table 1.1 Which Firms have Business Plans?

	Number of Employees				Number of Firms	Plan Updated Regularly (All Firms)
	1 to 4	5 to 19	20 to 49	50 to 100		
Firm had a Business Plan	45.6%	63.1%	71.3%	83.1%		80.6%
Number of Firms	26	106	67	54	254	204

Source: WCER

Figure 1.1. Which Firms have Business Plans?



Source: WCER

Does Having Exports in the Business Plan Affect Revenue and Growth?

The survey included the following two questions concerning the place of exports in the business plan:

Was exporting to the US market part of your original business plan?

Was exporting to the [other] international market part of your original business plan?

These questions were included to gather evidence on intention to export as an initiating factor in the establishment of the business, and whether that intention was realized.

We found that 196 firms had exporting to the US market as part of the original plan, and 110 firms had exporting to the international market as part of the original plan.

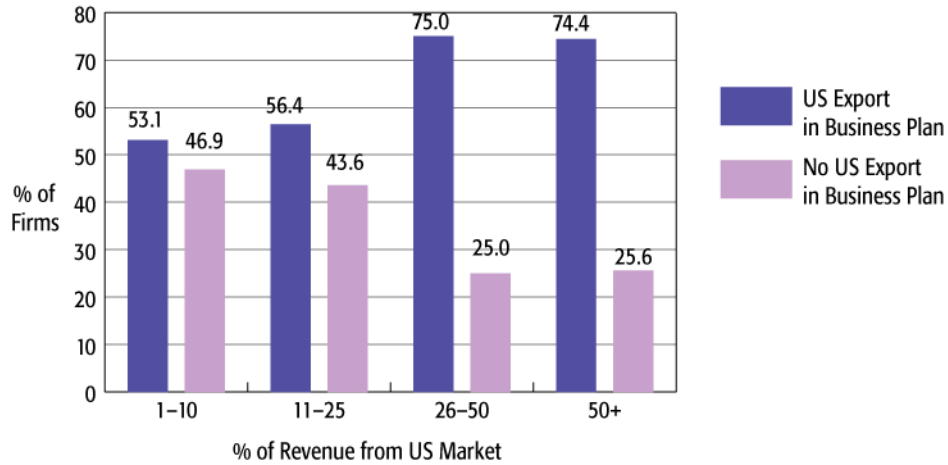
We first considered the results for firms in the US market where the firm’s intention to export was in the original business plan. The results showed that the firms having US exports in the business plan tended to receive more revenue from that market (see Table 1.2, below). For example, about three-quarters of the firms earning 26% or more of their revenues from sales to the US market had intended to sell there.

Table 1.2. An Intent to Export Increases Export Intensity: US Market

	Revenue from US Market			
	1-10%	21-25%	26-50%	50+%
% of Firms: US Export in Business Plan	53.1	56.4	75.0	74.4
% of Firms: No US Export in Business Plan	46.9	43.6	25.0	25.6

Source: WCER

Figure 1.2 An Intent to Export Increases Export Intensity: US Market



Source: WCER

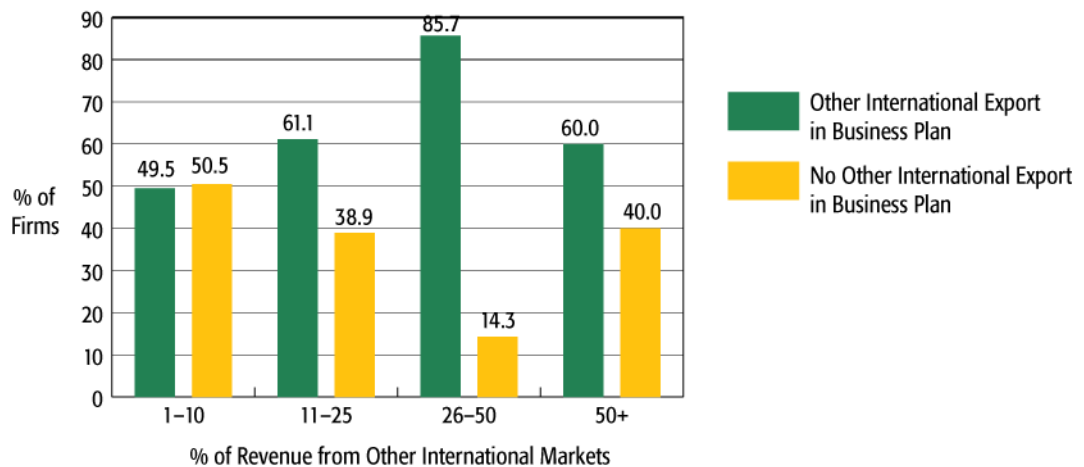
We then examined the respondents that intended to sell internationally in the original business plan. We found, as was the case with exports to the US market, the intent to participate in the international market is associated with higher revenue shares from that source. However, this finding should be interpreted with caution because of a smaller number of respondents in the higher revenue categories – only 21 respondents reported sales revenues from international markets of 26% or more.

Table 1.3. An Intent to Export Increases Export Intensity: Other International Markets

	Revenue from Other International Markets			
	1-10%	11-25%	26-50%	50+%
% of Firms: Other International Export in Business Plan	49.5	61.1	85.7	60.0
% of Firms: No Other International Export in Business Plan	50.5	38.9	14.3	40.0

Source: WCER

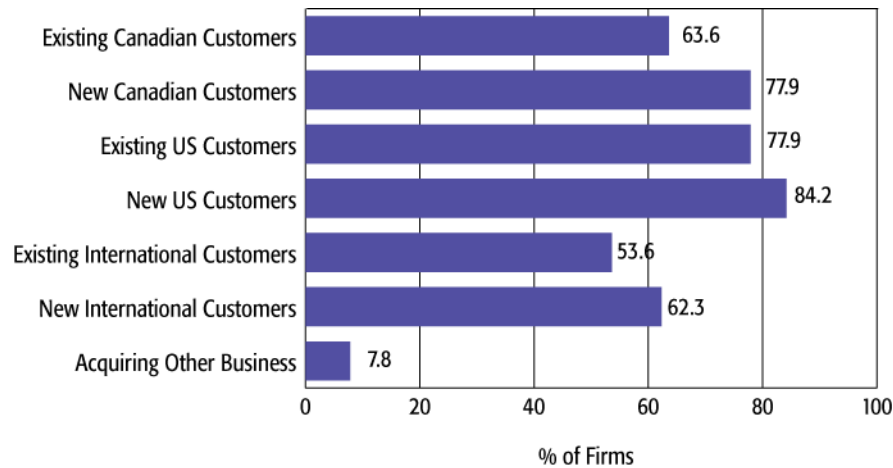
Figure 1.3. An Intent to Export Increases Export Intensity: Other International Markets



Source: WCER

We next explored where respondents expected to see future growth. For firms having US exports in their original business plan, growth opportunities clearly lay with the US market. As Figure 1.4 indicates, 84.2 % indicated that growth will come from new US customers. But it is also important to note that existing US customers, new Canadian customers, and existing Canadian customers were also important anticipated growth sources. We noted that for the most part; firms intend to secure this growth through expansion of the existing business rather than by acquisition.

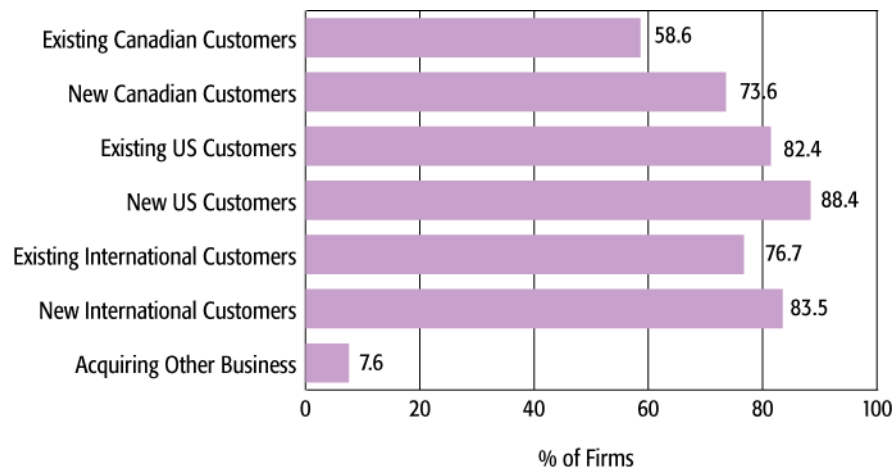
Figure 1.4. Expected Source of Firm Growth: US Export Markets in Original Business Plan



Source: WCER

The pattern tends to be a bit different for firms having other international markets in their original business plans with growth coming from an interesting balance between international, US and Canadian customers. In fact, as Figure 1.5 indicates, new US customers were reported to be a marginally higher source of future growth than new international customers.

Figure 1.5. Expected Source of Firm Growth: Other International Export Markets in Original Business Plan

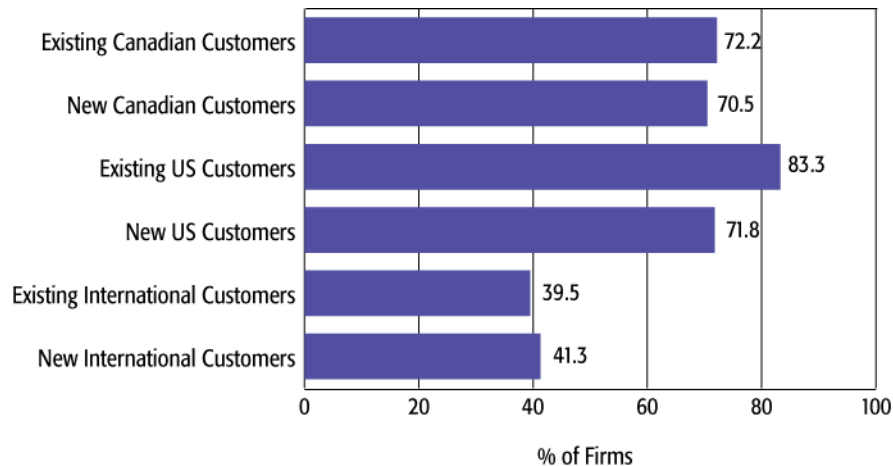


Source: WCER

What about Firms with Business Plans but No Intention to Export?

Next, we considered firms with a business plan but *without* initial intention to export either to the US or other international markets. The one-third selling in the US market *absent* initial intent recorded lower mean and median sales revenues from this source than did those *with* initial intent. Almost all expect business growth, with most coming from existing US customers followed by existing Canadian customers. (See Figure 1.6., below.) Only two-fifths of this subset showed interest in the international market as a source of growth.

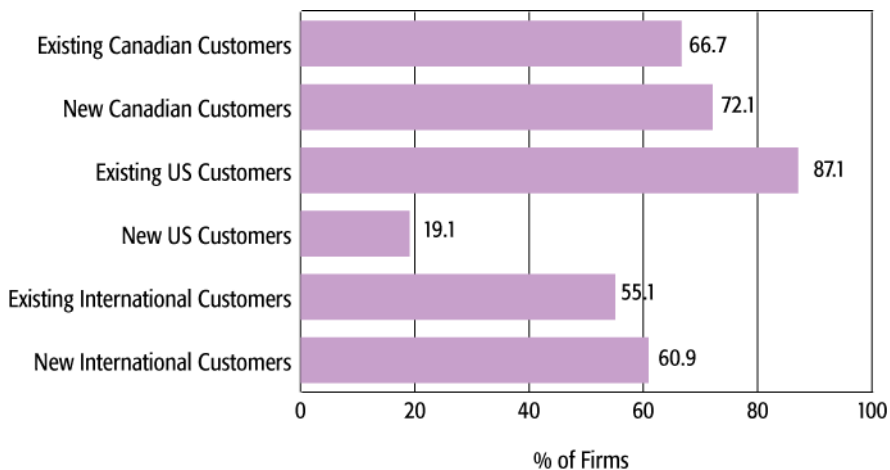
Figure 1.6. Expected Source of Firm Growth: No US Export Markets in Original Business Plan



Source: WCER

For those selling in other international markets but *without* initial intent, there were 70 respondents or just over one-quarter of those with a business plan. The vast majority is 'low end' exporters deriving 10% or less of their sales revenues from exports and virtually all include growth in the business plan. Notable is the fact that sales to existing US customers represent the largest anticipated source of export growth followed by existing international customers and new international customers, while new US customers is the lowest growth category.

Figure 1.7. Expected Source of Firm Growth: No Other International Export Markets in Original Business Plan



Source: WCER

How does Experience in Exporting or Work in a Foreign Country Affect Export Plans?

A business owner's past work experience can shape future business intentions. Two obvious ways in which a business owner may have a pre-disposition to participate in the export market could be either past service in an exporting business or, alternatively, work experience in a foreign country. Jobs of this nature place the owner higher on the export learning curve. This could translate into opportunities to acquire market information and contacts that could be the basis of future network development.

The survey asked one question related to export experience:

Has the owner had export experience prior to working with this firm?

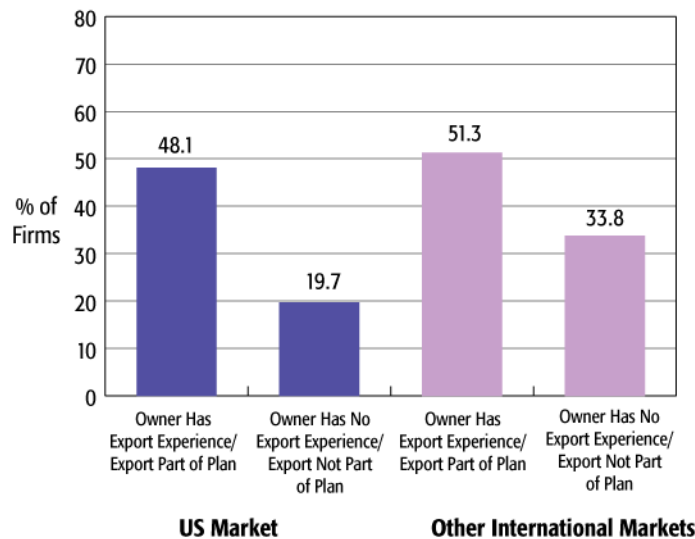
And another question related to foreign work experience:

Does the owner have experience working in a foreign country?

(Supplemental questions were asked for how long and in which country[ies].)

Our survey showed an owner's previous experience to be a significant factor in plans to export both to US and to other international markets. One-half of the firms reporting an initial intention to enter the US market had owners with export experience. This was about two-and-a-half times the percentage of firms in which owners had no export experience and no original intention to export. In the case of entry to other international markets, one-half of those reporting an initial intention to export had owners with export experience in contrast to the one-third whose owners did not and had no original intention to export.

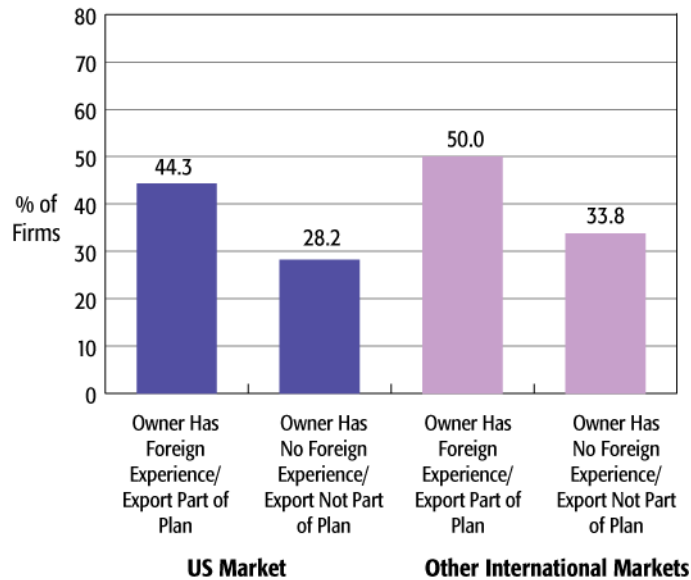
Figure 1.8. Prior Export Experience Affects Export Intentions



Source: WCER

There is clear evidence that work experience in a foreign country also affects intentions to export. Almost 45% of the owners with foreign work experience had an initial intention to enter the US market. This contrasts with slightly more than a quarter where the owner had no foreign work experience and no intention to export. The respective ratios were similar in the case where the business plan contained the initial intention to enter international markets. These findings on the importance of export experience and foreign work experience reinforce the findings on these factors in the previous study of Western Canadian SMEs.²

Figure 1.9. Foreign Work Experience Affects Export Intentions



Source: WCER

What about the Capital Requirements for Exporting?

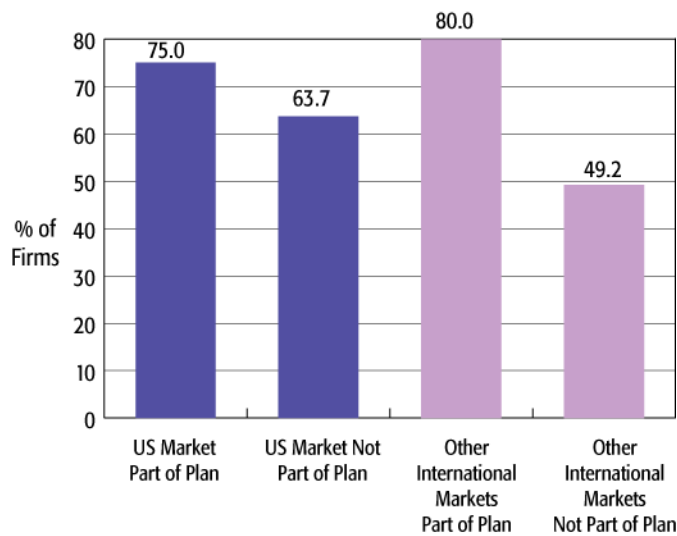
We thought it reasonable to assume that exporting requires firms to raise additional capital. The survey asked respondents the following two questions;

Did your business require additional capital funds to enter the US market?

Did your business require additional capital funds to enter other international markets?

As we expected, most respondents acknowledged the need for additional capital, but the proportion was higher for those respondents with export intentions in their original business plans. This was particularly strong in the case of those planning to serve other international markets. Our interpretation is that this stronger recognition of capital needs by those with initial intent is indicative of a realistic knowledge of the challenges involved and a stronger commitment to exporting.

Figure 1.10. Inclusion in Business Plan of Additional Capital



Source: WCER

Summary

While the findings of this chapter are generally intuitive, they prove that the importance of having realistic intentions and emphasizing business fundamentals cannot be overstated. The findings also offer some interesting avenues of exploration for future policy and program options (as presented in Chapter 7).

First, having a business plan that includes the intent to export is an important determinant of export involvement and export success in both US and other international markets. While it is true that almost a third of respondents have demonstrated some success in exporting either without a business plan, or with a business plan but no original intent to export, our results clearly indicate business planning results in higher revenues from exporting.

Second, respondents indicated that future growth will come from a variety of markets. While firms that export to the US indicated the largest share of growth will come from new US customers, they also indicated large amounts of growth from existing US customers, new and existing Canadian customers, and new and existing international customers. Findings for firms that export to the other international markets were a bit different in terms of emphasis but still support the following conclusion: firms are less inclined to focus on a single market opportunity and more inclined to embrace a variety of opportunities. This would obviously lead to a wider array of challenges but also a distribution of risk.

Third, experience and exposure matter when it comes to export intentions. Firms in which the owner either had prior export experience or work experiences in a foreign country were much more likely to include exporting in the business plan (which has been proven to lead to a higher level of success).

And fourth, respondents who indicated export intentions were more likely to build the requirement for additional capital into their business plans. This indicates a sense of realism that would likely contribute to better planning and a higher level of success.

2. The Marketing Chain: How Firms Find Markets

International Market Entry

Despite a research emphasis on the 'why' and 'when' of foreign market entry, other studies suggest a number of avenues by which potential exporters explore their prospective foreign markets. These studies of the 'how' suggest that attractive foreign markets may be identified and exploited through local partners or importers, export intermediaries (brokers), government agencies, trade shows, management's social (personal) ties and/or the internet.³

In a study of 42 Hong Kong toy manufacturers, Ellis identified social ties as an important method in finding and penetrating foreign markets.⁴ He noted that when management had some sort of social connection, exporters were more likely to sell directly to foreign markets. In the absence of such connections, most export opportunities arose out of trade show attendance or the assistance of a broker. Furthermore, Klaus and Skak found that personal connections are extremely important in building trust and reiterated the importance of trade exhibitions to identify potential partners in their study of Danish and Austrian exporters to Russia.⁵

Previous research also indicates the use of the internet as a powerful business tool cannot be ignored. According to Petersen, Welch and Liesch, the internet has the potential to reduce companies search costs and increase their ability to respond flexibly to new market opportunities.⁶

How do Western Canadian SMEs Find their Markets?

When exporters search for suitable channels to enter foreign markets, there are a number of choices open to them: personal contacts, the internet, federal or provincial trade agencies, project participation as a partner, joint venturing, a co-licensing agreement, use of an export management company, a contract with an agent or distributor, or other means such as trade shows. We asked a series of questions to identify how firms began exporting to the US market and other international markets. The questions sought to identify the channels of distribution initially pursued and thus identify how exporters got started in establishing their linkages with customers.

Table 2.1, below, indicates that *personal connections* are, for the smaller firms, the most prevalent means of market access with almost one-half of respondents selecting this option. This is a statement of how important personal networks are in realizing market opportunities. Despite the many other ways of finding markets, it seems the personal touch still counts. This is explored further in Chapter 7 on policy recommendations but it would suggest that one way of finding new markets is to get business owners into those markets to meet people. But perhaps an even more important way is to find business people who have lived in those markets and assist them with export development needs.

The importance of personal networks raises the question of how these connections may have evolved. In Chapter 1 we explored how working in a foreign country impacted export planning and performance. When we compared the results

of the foreign experience question in Chapter 1 to the personal connection question discussed in this chapter, the results were highly significant (Chi-square=8.433, probability=.00). However, when we compared the Chapter 1 question about work experience domestically with an exporting firm with the personal connections findings, there was no significant correlation.⁷ We can only speculate that personal connections are gained from 'on the ground' experience in foreign markets as opposed to domestic experience with an exporting firm.

The second most frequent choice was the use of *agents or distributors*. With about a quarter of respondents reporting this method, it falls well behind *personal connections*. Nonetheless, it proves there is a significant 'third party' role to be played in export market development.

Interestingly, we found the *internet* to be the third most popular way to find new markets. However, where the first two methods did not show much difference between the US and other international markets, the *internet* proved significantly more popular for finding new international markets although no reasons were provided.

We found the remaining methods, aside from the *other* category, were much less popular than the first three. This is somewhat surprising because those methods include what might be referred to as the more formal methods: *federal and provincial trade agencies, partnerships, joint ventures, co-licensing agreements and export management companies*.

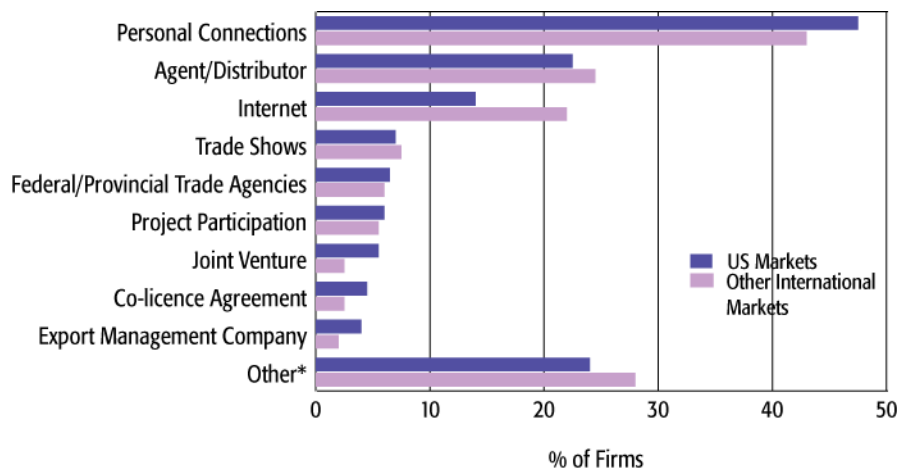
The final category, *other* bears mention due to the number of firms that chose it. Responses to this open-ended question included *trade shows, word of mouth, advertising, indirect exporting and cold calls*. We noted that *trade shows* was the most commonly given response followed by *word of mouth*.

Table 2.1. How Do Exporters Find Markets?

Method	% of Firms Using Method	
	US Market	Other International Markets
Personal Connections	47.4	43.4
Agent/Distributor	22.5	24.7
Internet	14.2	21.7
Trade Shows	7.5	8.1
Federal/Provincial Trade Agencies	7.2	6.8
Project Partnership	6.6	6.0
Joint Venture	5.5	2.6
Co-license Agreement	4.3	2.6
Export Management Company	3.8	2.1
Other including word of mouth, advertising, indirect exporting, cold calling	24.3	28.5

Source: WCER

Figure 2.1. How Do Exporters Find Markets?



*Other includes word of mouth, advertising, indirect exporting, cold calls.

Source: WCER

3. Challenges and Barriers to Exporting

Research on Challenges and Barriers

Studies traditionally consider the benefits of trade. But cross-border trade also involves costs, some external to the management of the firm – associated with moving the product across space and jurisdiction to a foreign customer – and some within the firm itself. These costs represent challenges, if not barriers, to an exporter.

There is a large quantity of research about the export experiences and perceptions of small and medium sized enterprises. Leonidou⁸ consolidates information on 39 perceived barriers to SME internationalization, providing a comprehensive list of these barriers separated into overarching categories: internal (including informational, functional, and marketing) and external (including procedural, governmental, task and environmental). He identifies the following as the most important barriers based on a survey of 32 empirical studies of small business exports:

- limited information to locate or analyze markets
- inability to contact overseas customers
- identification of foreign business opportunities
- excessive transportation and insurance costs
- different foreign customer habits and attitudes
- poor or deteriorating economic conditions abroad
- political instability in foreign markets

However, he and others⁹ are quick to point out that many benefits from exporting make the risk worthwhile, particularly when spread over several markets. The benefits include:

- increased revenues and profits
- alternatives to stagnant domestic markets
- improving efficiency
- attracting better employees and shareholders

Most studies also cite the importance of exporting in an increasingly global market.¹⁰

Research elsewhere has attempted to quantify the substantial costs of moving products from origin to destination in a foreign market, costs over which the firm itself has little or no control.¹¹ The researchers classify them into tariff and non-tariff barriers, and ‘inferred’ border costs such as shipping and transport time, border security, language, currency conversion and market information. For example, two experts in this area, Andersen and van Wincoop, found that “inferred border costs appear on average to dwarf the effect of tariff and non-tariff policy barriers.”¹²

In this chapter we address the challenges to exporting that are subject to managerial discretion. These focus on the internal costs of pursuing the export market arising from actions and adjustments that position and maintain the firm’s export capacity – the costs of positioning the firm to become an exporter. Managerial discretion is not an absolute. In some instances such as what and how much to produce, labour inputs, having an export oriented business plan, networking, and establishing an organizational structure congruent with exporting,

involve decisions over which management has substantial control. In other areas such as finding distribution channels, acquiring market information, finding financial resources, and dealing with risk and uncertainty, managerial options are more constrained. However, all of these challenges — integrally related to the export decision — involve costs.

What are the Challenges to Exporting?

So what are the organizational adjustments and the various costs linked to the export challenge? To investigate these, the survey presented respondents with an identical set of statements applied first to the US market and, second, to other international markets. For ease of reference, we have noted after each statement the type of cost represented according to categories often used in empirical research. The statements were:

It is difficult to obtain the added financial resources. (search costs)

It is difficult to find the right distribution channels. (search costs)

We lack a network of contacts in the United States. (for the US market) (search costs)

We lack a network of contacts outside of Canada and the US. (for non-US export markets) (search costs)

It is difficult to obtain reliable market information. (search costs)

It is difficult to hire qualified labour. (training and search costs)

The company is short of managerial expertise. (search costs)

There is little or no interest from management. (switching costs)

The company is pre-occupied with other geographical markets. (switching costs)

We are concerned about losing control over our products. (legal costs and loss of profitability)

There is too much added risk and uncertainty. (increased profit variability)

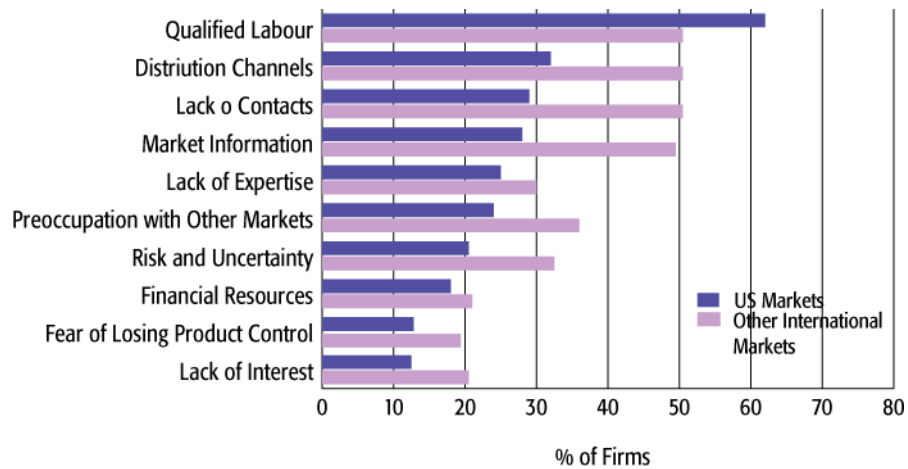
Respondents answered 'yes' or 'no' to each statement.¹³ The results, shown in Table 3.1 and Figure 3.1 below, give us an overview of how firms perceive the problems of exporting and clearly indicate that, in all instances, with the exception of access to additional financial resources, there are marked differences in results between the US and other international markets.

Table 3.1. What are the Challenges to Exporting?

Barrier	% of Firms	
	US Market	Other International Markets
Qualified Labour	63.4	50.6
Distribution Channels	33.0	50.6
Lack of Contacts	29.2	50.7
Market Information	27.9	49.5
Lack of Expertise	25.1	29.9
Preoccupation with Other Markets	24.3	36.9
Risk and Uncertainty	20.7	32.9
Financial Resources	17.8	20.8
Fear of Losing Product Control	12.8	19.4
Lack of Interest	12.6	20.5

Source: WCER

Figure 3.1. What are the Challenges to Exporting?



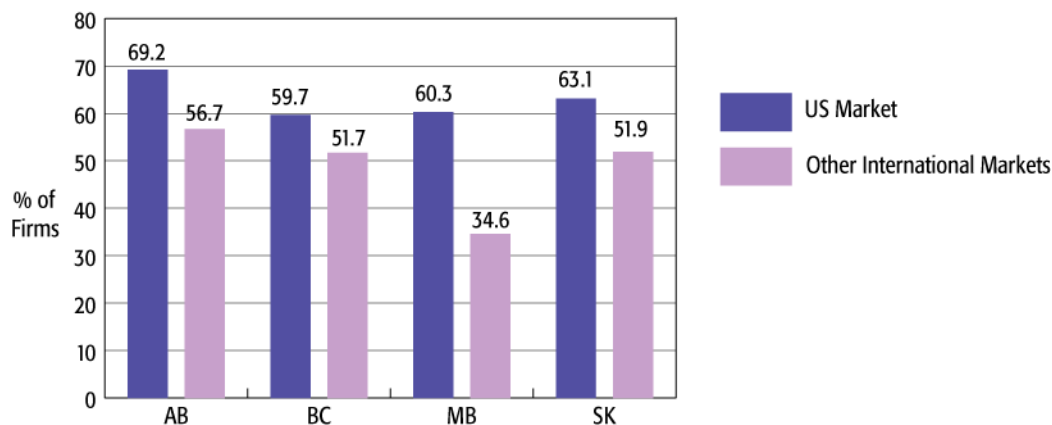
Source: WCER

How Firms Responded to the Statements About Barriers

Labour market conditions emerged as the foremost barrier experienced by our surveyed firms with more than three-fifths in the case of the US, and one-half of firms in the non-US case, identifying the *lack of qualified labour* as a barrier to internationalization.¹⁴

This is the only barrier where we found some differences in perceptions across the Western provinces. As shown in Figure 3.2, below, Alberta firms selected labour shortage as a barrier more than any other province, followed by British Columbia, Saskatchewan and Manitoba.

Figure 3.2 Barrier of Finding Qualified Labour: by Province



Source: WCER

It is clear that firms find it more difficult establishing what they deem the right *distribution channels* in non-US markets than within the US. One-half reported that these difficulties represented a barrier to trade in non-US markets compared with one-third in the US case.

When it comes to finding *contacts*, the problem is related to how a firm goes about finding the right distribution channels (above). In this case again one-half of respondents said that in the non-US case they lacked a network of contacts compared with nearly a third in the US case.

Reliable market information also emerges as a significant barrier with just under half of all firms reporting this challenge in the case of non-US export markets. This was twice the percentage indicating a problem in accessing information about the US market. It is still somewhat surprising that over a quarter of the firms also cited this as a barrier in the US market.

A *lack of managerial expertise* and the *preoccupation with other geographical markets* were viewed as barriers in the US case for about a quarter of respondents, with a somewhat higher number concerned about these issues for non-US markets. Measurably more firms, almost a third, are worried about the *added risk and uncertainty* that is perceived to accompany non-US exporting compared with one-fifth in the US case.

We found that the *financial commitments* required for internationalization are perceived as quite similar, regardless of destination. A *lack of interest* from management is relatively less important a challenge to international trade, though

substantially more frequent in the non-US case with one-fifth of respondents selecting this as a problem.

Based on the analysis presented above, the perception of barriers can really be divided into two categories. The challenge of hiring qualified labour is very high in both markets. This tells us that operational and resource requirements within the enterprise, in the form of labour inputs and marketing knowledge, are more important challenges to exporting than managerial priorities.

The rest of the barriers can be categorized separately in that their prevalence in non-US markets generally exceeds, in some cases by a wide margin, those for the US. This is most evident in the case of distribution channels, network contacts and market information which, taken together, are a mix of critical importance to a successful export experience. However, management's greater concern about non-US exporting is a reflection of its perception of the higher risk and uncertainty accompanying that option.

What Barriers Stand Out when Markets are Grouped Regionally?

The results for barriers as they apply to non-US markets require a closer look. The survey asked respondents to name their three most important non-US markets (in terms of sales revenue) by country and these countries have been classified into regional groupings. These regions follow the same parameters used by Statistics Canada in their trade reports.¹⁵ Since very few firms reported exporting to Central America and Africa, it was difficult to draw any conclusions for exporters to these regions so they were not included in our analysis. Table 3.2 below shows the number and percentage of firms selecting the challenge according to export destination.¹⁶ Figures showing the results may be found in Appendix C.

Table 3.2. Are Challenges to Exporting the Same Throughout the World?

Barrier	% of Firms					
	South America	Oceania*	Asia	North America**	Europe	Middle East
Qualified Labour	46.7	37.5	41.5	52.8	43.8	54.8
Distribution Channel	65.6	52.3	51.5	59.5	60.9	36.7
Lack of Contacts	51.6	47.7	39.2	52.8	49.6	46.7
Market Information	65.6	49.2	51.0	69.4	50.4	67.7
Lack of Expertise	34.4	33.8	26.0	30.6	24.6	20.7
Preoccupation with Other Markets	31.3	24.6	25.8	33.3	28.7	29.0
Risk and Uncertainty	37.5	24.6	21.6	32.4	26.0	25.8
Financial Resources	25.8	18.5	21.6	21.1	20.9	36.7
Fear of Losing Product Control	25.0	16.9	17.3	21.6	19.1	29.0
Lack of Interest	6.5	6.3	12.4	8.1	10.8	10.0
Average	39.0	31.1	30.8	38.2	29.6	35.7

*See Endnote¹⁷

**See Endnote¹⁸

Source: WCER

With regard to finding the right *distribution channels*, the selection is high for all regions including Mexico (included in the North America group) despite the fact that NAFTA has been in place for well over a decade.

A sufficient network of contacts is related to the ability to identify suitable distribution channels, and again this problem is selected by a large proportion of those exporting irrespective of region with about half of firms identifying it as a problem. There would seem to be a role for government, not only in increasing the amount of reliable market information and pointing out possible distribution channels, but also in encouraging institutional structures for network development.

Finding reliable *market information* was selected by a very high proportion of respondents across all regions.

Managerial expertise was seen fairly uniformly across regions as a relatively important issue. In contrast managerial interest was seen as an issue by relatively few respondents.

It is not surprising that *pre-occupation with other regions* should be so highly reported as a significant barrier to serving the international market. A full third of those surveyed reported serving the US market but not any other international markets. There was little variation amongst the various destination regions in this question, with answers varying from one-quarter (Oceania)¹⁹ to one-third (North America).

Added *risk and uncertainty*, while a concern, did not dominate the responses. Although numbers did rise to over a third of firms exporting to South America reporting added risk as a barrier, it suggests that the benefits associated with exporting were deemed of sufficient weight to counterbalance such concerns. This is especially evident in Asia, where only a fifth of firms reported added risk posing a significant barrier to international trade.

When we asked about the difficulties of obtaining additional *financial resources*, most regions hovered around the 20% response rate for selecting this barrier, except South America and the Middle East, which were both significantly above this mark.

Concern over *losing control over products* was not widely reported as a significant barrier to dealing with international markets. Firms exporting to the Middle East and Central America were the most concerned, with almost a third of these firms showing such concern. At the other end of the scale, less than 20% of firms exporting to Oceania showed such concern.

Do Firm Characteristics Affect Perceptions of Barriers to Other International Markets?

Our previous section makes clear that with the exception of finding qualified labour, firms perceive challenges to non-US exporting to be greater than in the US market. This helps clarify many of the issues that will need to be addressed if Western Canadian exporters are to achieve a greater measure of diversity in their export markets. Maintaining their present strong position in the US market is essential but there is the potential to build on the experience acquired in that market to build up offshore sales.

In this section we consider how these perceptions, which suggest a hesitation in developing offshore potential, may be associated with certain firm characteristics. We have elected to consider seven characteristics: firm size, firm age, export experience, family ownership, sector, province and stage of business development.

Firm Size

A large number of studies focus on what kinds of SMEs are most likely to internationalize. Most conclude that smaller firms are less likely to export than larger firms.²⁰ However Brouthers and Nakos²¹ find no significant correlation between size and export performance. Other research suggests the correlation between firm size and propensity to export is only important in terms of access to resources; larger firms are able to access more resources and will therefore perceive fewer barriers.²²

The first characteristic we chose to examine is size in terms of the total number of employees. Firms were classified into four groups: 1 to 4 employees; 5 to 19 employees; 20 to 49 employees; and 50 to 100 employees. Data was available for between 323 and 341 firms, depending on the barrier. We then analysed the relationship of each potential or perceived barrier to firms' size and found that apart from the difficulties of *finding additional resources* and *lack of management expertise*, there was a substantial uniformity of perception. These perceptions are shared uniformly across Western Canadian SMEs and are independent of size.

Firms with 1 to 4 employees are almost twice as likely as firms with 50 to 100 employees to have difficulties finding additional resources. This is consistent with the resource based view of internationalization that larger firms have access to more resources and, therefore, perceive fewer barriers. That the percentage of firms selecting this barrier consistently declines as the number of employees rises further supports this view. However, these differences could result from sampling error (Chi-square=4.716; probability=.24).

Firm Age

Another commonly cited indicator of propensity to export is firm age. Brouthers and Nakos²³ investigated the claim that younger companies were more profitable exporters but found, on the contrary, that an older firm performed more profitably in foreign markets since it had more time to centralize and coordinate its organizational structure. Requena-Silvente²⁴ supported this notion by finding that older and medium sized firms are more likely to be exporters, while younger, small domestically owned firms are less likely to do so. In our research, evaluating the relation of age to each of the barriers, we found firm age makes little difference in barrier perception.

Export Experience

Previous research has suggested that experience in an export market reduces perceptions of the difficulties of access. Katsikeas and Morgan²⁵ suggest that less foreign market experience will result in more perceived barriers. In an often cited work, Johanson and Vahne²⁶ suggest that internationalization is an incremental process, in which a firm gathers knowledge and gradually expands over time. This hypothesis is supported by Fernandez and Nieto²⁷ and Burpitt and Rondinelli²⁸ who suggest that firms exporting longer will become less risk averse, especially if they value the learning experience that comes with exporting. However, not all research sees a lack of international experience as a significant barrier to export performance. Others see that companies can be quite successful without any prior export experience.²⁹ Hutzschenreuter *et al.*,³⁰ based on an admittedly small but in-depth

survey, show that start-up firms can be quite successful internationalizing within their first two years.

Several recent studies have used samples of firms in Western Canada to examine a range of questions associated with internationalization. For example, in a 2002 study of Alberta firms we found that companies could be successful exporters without prior export experience.³¹ In 2004, an exhaustive survey of 676 firms in manufacturing and professional and technical services across the four Western provinces examined markets, both international and domestic, served by the participants.³² In both studies, respondents were more optimistic about export opportunities when they had experience in the export market, a finding consistent with many international researchers.

Our present study examined the role of export experience in two dimensions. In the first we segmented the responses to the barrier questions by market participation: those who exported to non-US markets (235 firms) and those who did not (152 firms). The results of the analysis indicated that in the following cases: finding the *right distribution channels*, difficulties in hiring *qualified labour*, *interest from management*, *pre-occupation with other geographical markets*, and too much *added risk and uncertainty*, there were significant differences in response (in each instance Chi-square probability=.00) As the literature suggests, among those already active in non-US markets, the perception of these as barriers was minimized. And furthermore, the results suggest that a combination of factors involving marketing, acquisition of suitable labour inputs, management focus, and concern about variance in rates of return serve to inhibit interest in these non-US markets.

We then turned to a second dimension of export experience: the number of years exporting to non-US markets to identify any effect on perceived barriers.³³ Here we are working only with those firms that have served non-US export markets previously.³⁴ The result of that analysis was that difficulty in establishing a *network* emerged as highly significant (Chi-square probability= .00) meaning that the longer the firm had been exporting to non-US markets the less important the perceived barrier. Differences in other barriers were not significant, though the *distribution channel* barrier came close to statistical significance.³⁵

The evidence is that long term export experience does make a difference in reducing two key marketing barriers: identifying the *right distribution channel* and *establishing international contacts*.

Family Ownership

Next we examined if barrier perception is related to the ownership characteristics of the firm: the distinction between *family* and *non-family owned businesses*. In the survey the generational ownership of family firms was as follows:

- 134 (64.7%) were first generation owned
- 60 (29.0%) were second generation owned
- 13 (16.3%) were third or fourth generation owned

It is noteworthy that there was no difference in family ownership patterns between foreign born and Canadian born owners.

The family condition was chosen because previous research has suggested that family owned enterprises are at some disadvantage in export participation. According to Fernandez and Nieto,³⁶ family owned enterprises allow quicker

responses, but generally have informal organizational structures unsuitable for internationalization. They must therefore adapt and, in so doing, incur incremental costs before they can be successful internationally, either by bringing in a corporate backer, unrelated management officials, or decentralizing organizational structures. However, their hypothesis that it was more difficult for family businesses to acquire resources, was not strongly supported. In a previous study, it was found that later generations would be more likely to export.³⁷ Others found that only 30% of family businesses survived into the second generation, 10% into the third and 4% into the fourth.³⁸

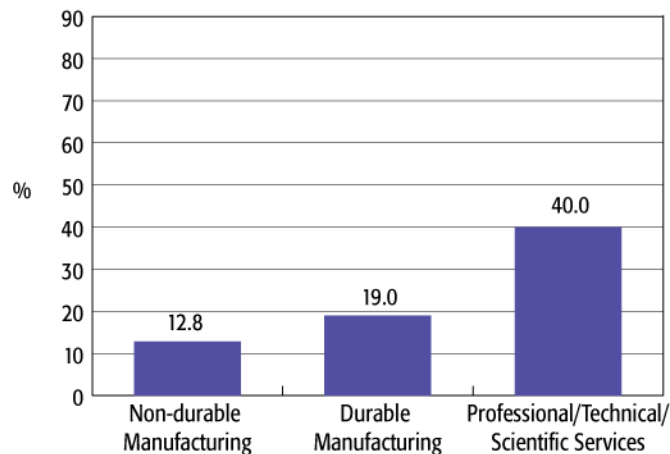
The results of our survey indicate that there is no difference in the distribution of export intensity between family and non-family owned enterprises, and further that there is no difference in this factor between first and second generation ownership.

More generally, data for between 322 and 340 firms – depending on the barrier – show that response rates are generally quite similar for family and non-family businesses with two marginal exceptions: *managerial interest* and *network arrangements*. *Lack of managerial interest* and *difficulty in establishing a network of contacts* was more evident relatively in family businesses (Chi-square probability=.05 and .07, respectively).

Sector

A significant difference emerged in only one instance – fear of *losing control of product* – when firms were classified by *sector*. This difference is statistically significant. (Chi-square=6.793, probability=.03). The concern was substantially more prevalent in professional and technical respondents. The results suggest that the manufacturing firms in the sample are producing a standardized form of product rather than products under patent or with firm specific features.

Figure 3.3. What Firms Fear Losing Product Control?



Source: WCER

Province

No significant differences in barrier perceptions when firms were classified by province of location.

Stage of Development

When firms were classified by stage of development no significant differences were apparent.

Summary

In the first part of this chapter we examined the perceived barriers to exporting. It was clear that finding qualified labour is the most prominent barrier for both US and non-US markets.

But the other barriers identified were significantly different depending on the market. Finding market information, the right contacts, financial resources, the right expertise, as well as coping with risk and uncertainty were much stronger barriers to non-US markets.

We also looked for evidence that selected firm characteristics may be associated with perceptions of barriers to non-US markets. In so doing, size, age, experience, ownership, family ownership, sector, province and stage of business development were examined. What we found is that experience in an export market – learning by doing – makes a difference. Beyond that there was no evidence to suggest that any of the other characteristics have much influence on perceived barriers.

4. International Trade Administrative Procedures as Barriers to Exporting

Are International Trade Administrative Procedures a Barrier?

In previous sections the focus has been on the conditions, including structural arrangements within the enterprise, and on the kinds of support – financial, informational, marketing – that the firm can muster in venturing into the export market. But any enterprise that engages in foreign sales must also operate within a regimen of international trade administrative procedures (ITAPs) that in practice are not entirely uniform across countries. Hence, seen from the perspective of the Western Canadian SME, their experience with and perceptions of the regulations they will encounter in their attempt to secure markets is realistically a part of their strategic thinking.

In order to get a better grasp of how Western Canadian SMEs have experienced these ITAPs, respondents were presented with a series of tariff, import licensing and other trading procedures for US and non-US exporting and asked if they had encountered any problems. These problems, beyond the purview of the firm's direct operations, must be accommodated to complete the export transaction. The following were identified from previous WCER research:

Problems with customs authorities

Customs providing preferential or discriminatory treatment

Inadequate customs information

Import licensing problems

Tariff allocation systems

*Phytosanitary regulations*³⁹

The US and Non-US Experience with ITAPs

Among these problems, customs issues were found to be the most prominent barriers, and it is interesting to note in what follows that these are seen – despite NAFTA – as being more significant when dealing with the US in contrast to other international markets. This is demonstrated in Table 4.1 and Figure 4.1, below. This confirms findings of a survey done by WCER in 2007.⁴⁰ When asked if *customs providing preferential or discriminatory treatment* was a significant barrier, the number of firms that said yes is much lower. We asked firms if *inadequate customs information* was a barrier to exporting. With over a quarter of firms reporting that it was, inadequate customs information was seen as the second largest external barrier and was a considerably larger barrier to the US than to other international markets.

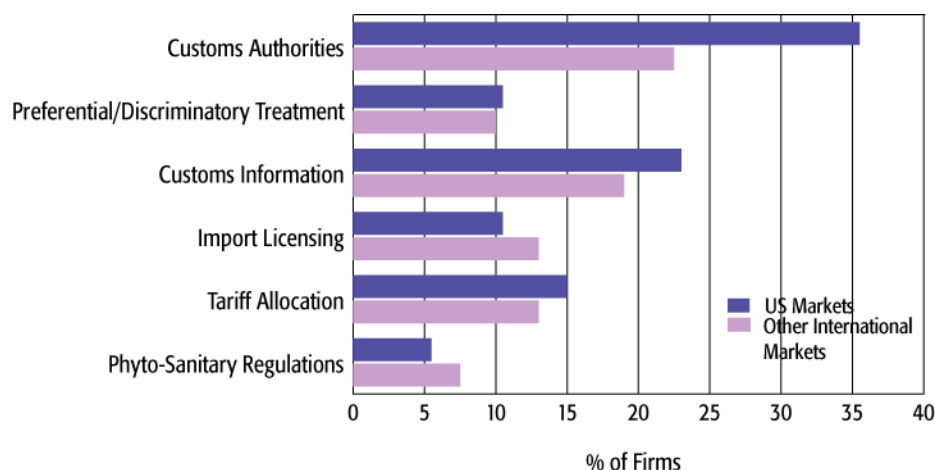
As for the remaining problems, *import licensing* was perceived as being somewhat higher in non-US international markets; *tariff allocation systems* were more problematic in the US than in other international markets; and percentages experiencing *phytosanitary regulations* were higher in non-US international markets.

Table 4.1. Which ITAPs are Barriers?

	% of Firms	
	US Markets	Other International Markets
Customs Authorities	35.8	22.1
Preferential/Discriminatory Treatment	10.6	10.1
Customs Information	23.4	19.1
Import Licensing	10.4	13.6
Tariff Allocation	15.0	13.6
Phytosanitary Regulations	5.2	8.1

Source: WCER

Figure 4.1. Which ITAPs are Barriers?



Source: WCER

What is the Regional Experience with ITAPs?

We consider now the reported experience with trade administrative procedures by geographic region. Table 4.2, below, shows the detailed results for each region.

Starting with problems with *customs authorities*, firms exporting to South America and North America⁴¹ experienced the most difficulty, at 38.2% and 33.3% respectively. The numbers for North America refer mainly to Mexico. One would expect that the NAFTA would help to streamline exporting, however, this does not appear to be the case. Customs authorities in Europe and Oceania generated the fewest responses, with only 19.4% and 16.7%, respectively.

Despite our surveyed firms selecting problems with customs authorities as the primary ITAP issue, the barrier is not one of *preferential or differentiated* treatment. With the exception of Central America, the percentage of firms exporting to any given region who were concerned with such treatment remained under 15%, falling as low as 7.6% in Oceania.

Firms reported having more of a problem with the lack of adequate *customs information* than they had with the treatment provided by customs. Those exporting to South America and the Middle East both reported this problem at a significantly higher frequency, reinforcing the impression that firms face more external barriers in these regions than in any of the other regions.

In terms of *import licensing*, South America remains a problem area for exporting firms, with 26.5% of firms selecting this barrier. North America was surprisingly high at 23.1%. On the other hand, only about half that many firms exporting to Europe (11.9%), Oceania (12.1%) and Asia (13.9%) identified import licensing as a barrier.

When surveyed firms were asked about *tariff allocation* systems, the same trend emerged: South America and North America were the most problematic regions, at 23.5% and 28.2% respectively. Oceania, Europe and the Middle East are all significantly lower, and even firms exporting to Asia were less bothered by tariff allocation systems, with only 17.8% selecting these systems as barriers.

Phytosanitary regulations do not appear to be a major concern. Firms exporting to South America recorded the highest levels, at 14.7%, but this is still a relatively small percentage of all firms. Oceania, at only 3%, was the region with the fewest firms selecting this barrier. The low numbers may be due in part to the high percentage of durable manufacturing firms in our survey sample.

Table 4.2. What is the Regional Experience with ITAPs?

	South America		Oceania		Asia		North America		Europe		Middle East		Africa		Central America	
	# of Firms	% of Firms*	# of Firms	% of Firms*	# of Firms	% of Firms*	# of Firms	% of Firms*	# of Firms	% of Firms*	# of Firms	% of Firms*	# of Firms	% of Firms*	# of Firms	% of Firms*
Problems with Customs Authorities	13	38.2	11	16.7	23	22.8	13	33.3	26	19.4	9	29.0	1	14.3	6	50.0
Preferential or Discriminatory Treatment	4	11.8	5	7.6	12	11.9	4	10.3	14	10.4	4	12.9	1	14.3	4	33.3
Inadequate Customs Information	11	32.4	9	7.6	17	16.8	10	25.6	25	18.7	9	29.0	1	14.3	5	41.7
Import Licensing	9	26.5	8	12.1	14	13.9	9	23.1	16	11.9	5	16.1	2	28.6	3	25.0
Tariff Allocation Systems	8	23.5	4	6.1	18	17.8	11	28.2	17	12.7	3	9.7	1	14.3	4	33.3
Phytosanitary Regulations	5	14.7	2	3.0	10	9.9	2	5.1	11	8.2	3	9.7	0	0.0	2	16.7

* This column represents the percent of total firms exporting to the region.

Source: WCER

An overview of these findings is shown in Figure 4.2, below. The average respondent experience with the ITAP barriers is given by region, recognizing that the numbers for Africa and Central America are based on few responses. That said, the highest average difficulties were encountered in the Western hemisphere, both South and North America.

Figure 4.2: Regional Importance of ITAPS



Source: WCER

Summary

The most important finding from this chapter is that *customs authorities* and *customs information* are perceived as barriers to the US market to a much higher degree than in non-US markets. These issues are explored further in the next chapter which deals with the thickening of the Canada-US border since 9/11. But it is also important to note that the customs issues are still the highest perceived barriers in non-US markets.

5. Security Measures Thickening the Canada-US Border

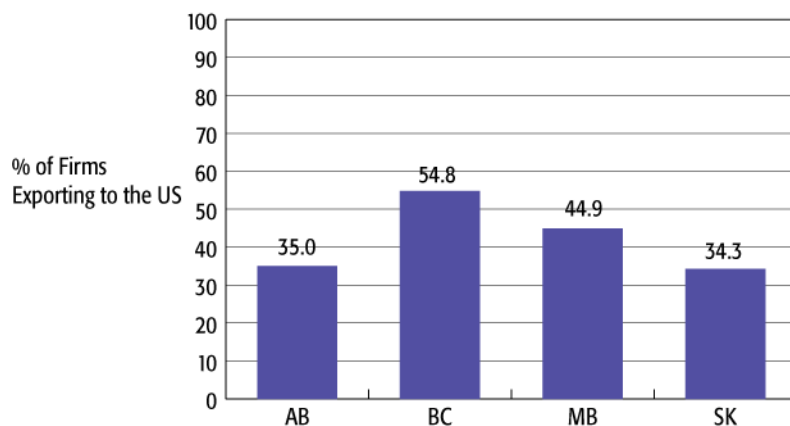
Conditions related to the passage of goods and people across the Canada-US border have changed in recent years in response to concerns about security and terrorism. These changes may help explain why, as reported in Table 4.2 in the previous chapter, such a high proportion of respondents stated that dealing with US customs authorities presented difficulties in exporting their product. Because the issue of border security has become so important to North American cross border trade flows and mobility, our survey posed a series of questions to elicit experience and the impact on their operations, of the various initiatives adopted to improve border security under the Canada-US Smart Border Action Plan such as the Border Enforcement Team Program, the Free and Secure Trade (FAST) Program and NEXUS (the Canada Border Services Agency/US Customs and Border Protection family of programs for frequent travelers).

We started by asking:

Have the US Government policies for Anti-terrorism and Cross-border Security affected your exporting activities?

Of firms in our study exporting to the US market, 43.5% (150 firms) answered yes to this question. The responses by province (Figure 5.1, below) indicate that 'yes' answers ranged from a low of 34.3% in Saskatchewan to a high of 54.8% in British Columbia with the share of affirmative responses in Alberta close to those in Saskatchewan, and those for Manitoba in the middle (Chi-square=9.884, probability=.02). These results are suggestive of a variance in protocol at border crossing stations since other factors such as firm size, industry sector, and export intent play no explanatory role.

Figure 5.1. Firms Affected by US Anti-terrorism and Cross-border Security Issues by Province



Source: WCER

We then chose specific difficulties, identified through previous consultations with individuals experienced in NAFTA border crossing issues, and posed them to the respondents, asking them to select those they had encountered:

Shipment delays at Canada-US border

Additional security compliance costs

Delayed shipping

Increased costs passed on by transport carriers and shipping companies

Reduced customer service

Increased security related costs

Increased inventory requirements

Increased storage and warehousing costs

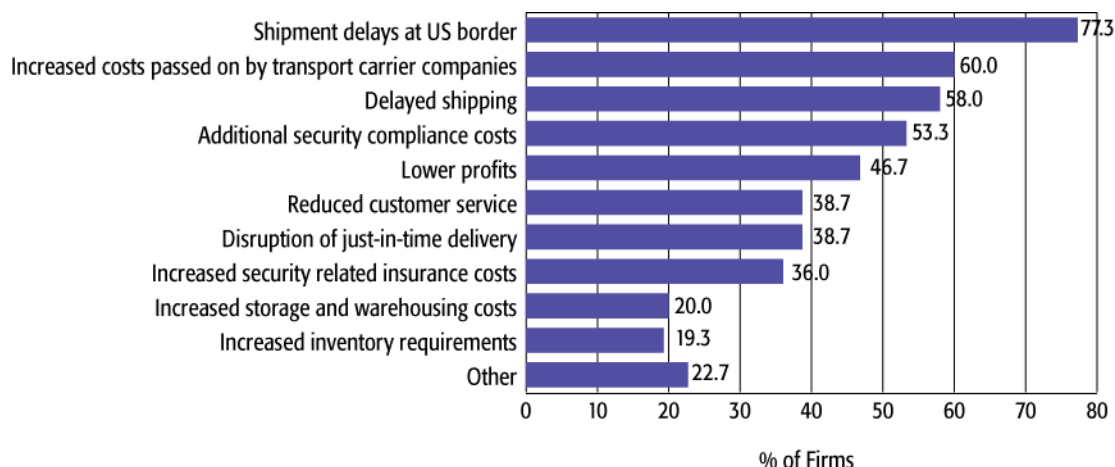
Lower profits

Disruption of just-in-time logistics systems

Other

The percentage selecting each issue is shown in Figure 5.2, below. These numbers are significant, and the fact that the typical respondent encountered more than one of these difficulties magnifies the disruptive effect of security issues on business operations. In the 'other' category are a great many issues noted by respondents, ranging from inconsistency on the part of border officials to difficulties faced by sales and installation personnel in crossing the border.

Figure 5.2: What are the US Border Issues?



Source: WCER

Our survey continued by asking:

Will policies for anti-terrorism and cross-border security result in relocating your production capabilities to the US?

Of the respondents exporting to the US who reported problems from anti-terrorism and cross-border policies, 13.4% said they will consider relocating their facilities to the US.

Summary

This chapter presents some of the most compelling findings of this study. Increased Canada-US border security measures are penalizing Canadian firms heavily. From the perspective of Western Canadian firms, the thickening border amounts to the equivalent of a 'border tax' on entry into Western Canada's most important export market.

The fact that well over half the respondents experienced increased costs and shipping delays strongly suggests that more must be done to expedite trans-border shipments to the US. With slightly more than one of every eight firms contemplating a move in order to cope with the challenges of a thickening border, this is an obvious area for policy intervention.

As well, the variation reported across the Western provinces in experiencing border difficulties is intriguing. Since other factors such as firm size, industry sector, and export intent play no explanatory role, we must assume that this is due to the inconsistent application of border crossing procedures or an imbalance in border crossing infrastructure. Either way, the issues must be addressed if Western Canada is to increase its exports to the US.

6. Indirect Exporting and Foreign Suppliers

Indirect Exporting

In a previous study of Western Canadian SMEs⁴² it was found that indirect exporting – participation as a supplier to those who export – was important for a large proportion of firms in manufacturing, information technology and in professional and technical services. It is frequently argued that this participatory link to the export market, a supply chain, provides just the type of experience that may encourage later direct involvement in the export market. One objective of our research was to pursue this question further by identifying how important indirect exporting is to those firms already involved directly in the export market. For this purpose, the survey posed three questions that identify the prevalence and the importance of indirect exporting:

Is any part of your service or product sold to another business which is then sold outside of Canada?

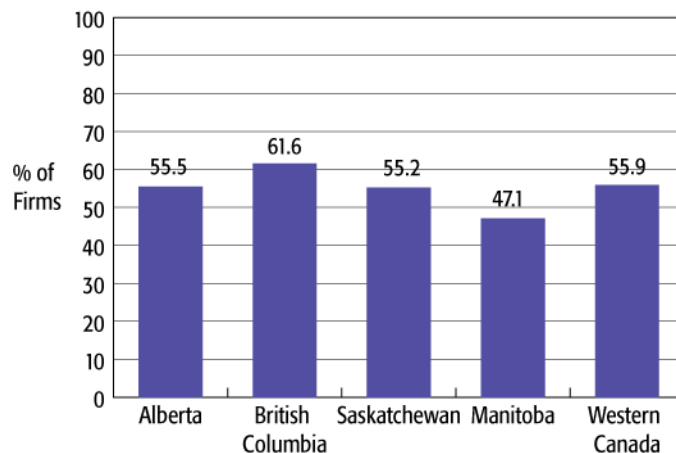
If the answer to the question was ‘yes’, which was the case with 212 respondents, then they were asked the following supplemental questions:

What percentage of your current sales revenue comes from these exporting customers?

Are increased sales to these exporting customers projected in your business plan?

The responses likely rely on qualitative assessments and judgments since sales records do not normally identify whether a customer is, in fact, an exporter. Responses to the first question by province, shown in Figure 6.1, below, reveal that just over one-half (55.9%) of the respondents believe themselves to be indirect exporters with the range from a high of 61.6% for British Columbia to a low of 47.1% for Manitoba. Statistical tests indicate that differences in provincial results are within the margin of sampling error.

Figure 6.1. Indirect Exporters by Province



Source: WCER

Table 6.1 and Figure 6.2, below, show the importance of indirect exporting in sales revenue of affirmative respondents for Western Canada: of the 212 indirect exporters, 182 respondents were able to estimate the size of these revenues. The results indicate that most respondents are not highly dependent on revenue from

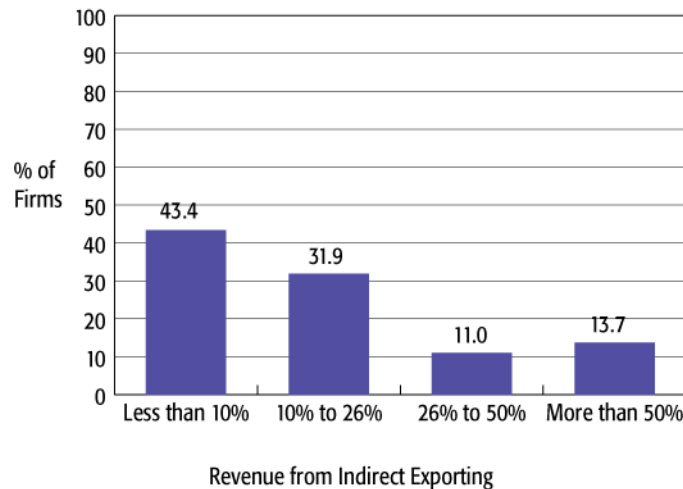
indirect exporting. Some 43.4% of those identifying customers as exporters reported that sales revenue from this source was less than 10% of sales; while only 13.7% reported more than half of their sales revenue coming from indirect exports.

Table 6.1. Indirect Exporting Revenues

Revenue from Indirect Exporting	% of Firms	Number of Firms
Less than 10%	43.4	79
10% to 26%	31.9	58
26% to 50%	11.0	20
More than 50%	13.7	25

Source: WCER

Figure 6.2. Indirect Exporting Revenues



Source: WCER

The percentage of firms that are indirect exporters is presented in Table 6.2 below, according to the size of the firm. As the table indicates, the percentage of firms that are indirect exporters does not vary significantly by firm size.

Table 6.2. Size of Indirect Exporting Firms

Number of Employees	% of Firms that Are Indirect Exporters	Number of Firms
1 to 4	59.3	32
5 to 19	54.5	91
20 to 49	56.5	52
50 to 100	56.9	37

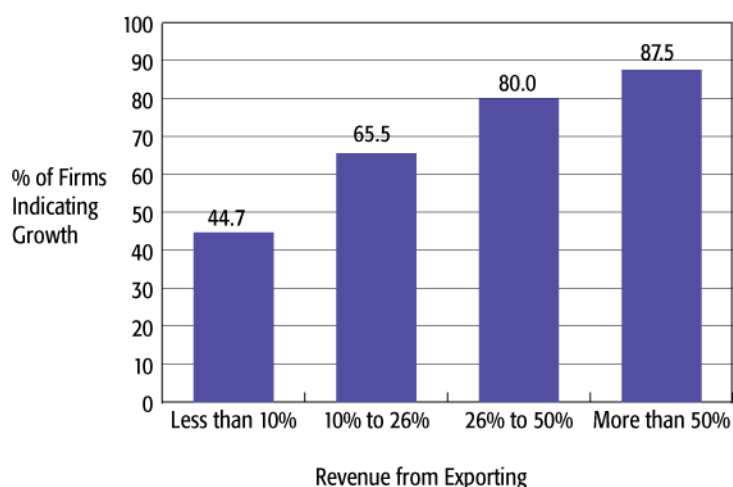
Source: WCER

Will Growth Come from Indirect Exporting?

The anticipated future relationship with those customers who are exporters is summarized in Figure 6.3, below, based on whether growth in sales is built into business plans. The results in the table are cross-tabulated with the relative importance of these customers to total sales.

The results show that of the 175 respondents, those most dependent on indirect exporting sales are much more likely to anticipate future growth from this source. These results are statistically significant (Chi-square = 19.051, $p = .000$). With the exception of the smallest firms, respondents generally expect these customers will present increased market opportunities. That implies that the exporting customers themselves will enjoy expanding foreign trade markets.

Figure 6.3. Growth from Indirect Exporting



Source: WCER

What is the Role of International Suppliers?

Respondents may be tied to the international economy not only through their own exporting and their sales to other firms that export but also in their purchase of inputs from international sources. The following question identified the prevalence of international sources of supply:

Do you have any international suppliers?

Almost two-thirds (64.4%) of the 382 affirmative respondents had international suppliers as shown in Table 6.3, below. There was no statistically significant difference in the prevalence of international suppliers across the three industry sectors included in this study: durable manufacturing, non-durable manufacturing, and professional and technical services.

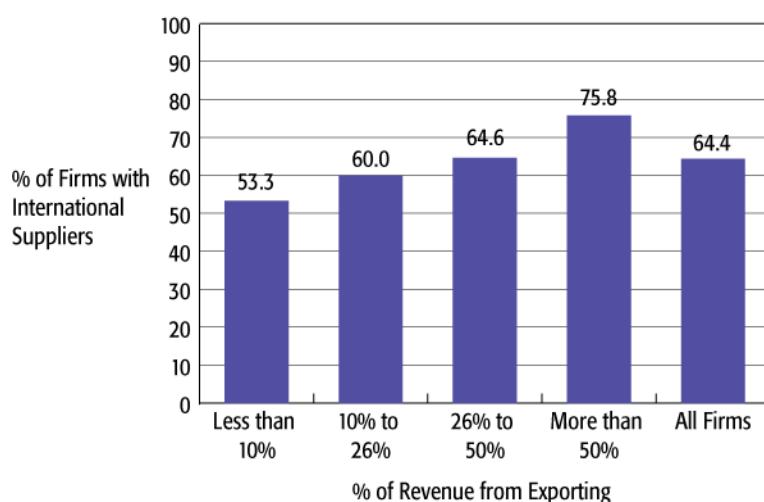
Table 6.3. Firms with International Suppliers

	% of Firms	Number of Firms
Yes	64.4	246
No	35.6	136

Source: WCER

Figure 6.4, below, reports on the relation of international suppliers to export intensity. The results, statistically significant (Chi-square=13.433, probability=.004), indicate that as export intensity increases so also does the proportion of respondents with international suppliers. Just over one-half of low intensity exporters (53.3%) reported international suppliers compared with three quarters (75.8%) of the high intensity group.

Figure 6.4. Intensity of Exporting and the Role of International Suppliers



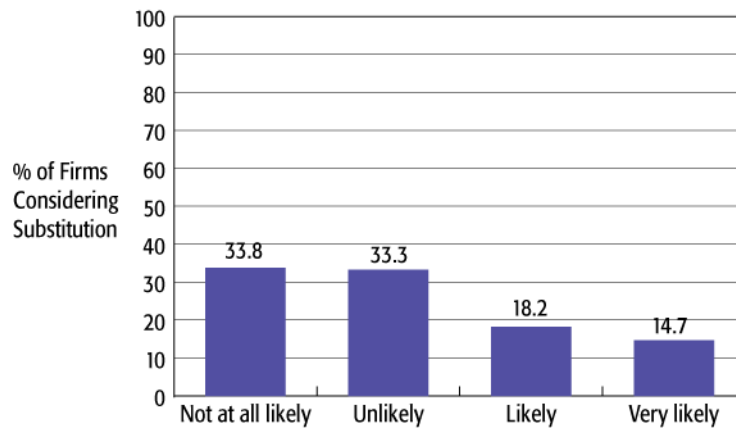
Source: WCER

We then asked:

What is the likelihood that you will substitute North American suppliers for suppliers elsewhere in the world to minimize security related costs?

As shown in Figure 6.5, below, two-thirds of the valid respondents (67.1%) thought such a shift was deemed *not at all likely* or *unlikely*. These percentages were a common experience across province, industry, size of firm and export intensity (including export intensity to the US market). However of those choosing *likely* or *very likely*, the vast majority (69.7%) had exporting to the US market as part of their original business plan.

Figure 6.5. Substituting North American Suppliers for Other International Suppliers



Source: WCER

Summary

This chapter examines the role of indirect exports and foreign suppliers and serves to reinforce how closely Western Canadian SMEs are tied to the international economy. The point is that Western participation in international trade cannot be judged solely by considering exports and the share of revenues derived from exports. We cannot lose sight of the important role that firms play in supplying other exporters, and in relying on foreign suppliers as part of the value added chain.

7. Key Findings and Policy Recommendations

This study is based on a survey of 387 Western Canadian firms with less than 100 employees, primarily in the manufacturing sector but supplemented by a few firms in professional and technical services. All participants are exporters of record, and apart from a sprinkling of start-ups, most firms in the survey were well established.

The study contributes knowledge about a variety of export issues organized around four themes:

- the role of exports in the firm's growth strategy
- the marketing chain
- perceived barriers to exports, including the thickening of the Canada-US border
- the supply chain

Our findings suggest that there is a strong role for public policy in improving Western Canada's export performance and in addressing some of the particular challenges and barriers identified by respondents. These are presented below by chapter.

1. SME Exports and Growth Strategies

Key Findings

This chapter underlines that emphasizing business fundamentals and having realistic expectations are essential to successful exporting. There are four key findings.

First, having a business plan that includes the intent to export is an important determinant of export success in both US and other international markets.

Second, future growth will come from a variety of markets. Exporting firms are less inclined to focus on a single market opportunity and more inclined to embrace a variety of opportunities. This leads to a wider array of challenges but also a distribution of risk.

Third, experience and exposure do matter when it comes to export intentions. Firms in which the owner either had prior export experience or work experiences in a foreign country were much more likely to include exporting in the business plan (which has been proven to lead to a higher level of success).

Fourth, respondents who included export intentions in their business plans were more likely to also include the requirement for additional capital. This indicates a sense of realism that would likely contribute to better planning and a higher level of success.

Policy Recommendations

1. Fundamentals are important. Continue to promote the necessity of a business plan for exporting success and ensure that business planning assistance is available. The fact that a third of respondents did not have a business plan suggests there are still many firms that do not recognize the need for planning.
2. When developing export assistance programs, recognize that very few firms are exclusive exporters. Most firms depend on a balance of revenues from domestic and foreign customers and cannot afford to focus exclusively on a single market.

3. Recognize that prior exporting experience and foreign work experience are significant contributors to success. Offer incentives for business graduates to work with exporting firms, for business graduates to obtain foreign work experience, and for business people with foreign work experience to consider export opportunities.
4. Exporting requires additional capital. Ensure SMEs have access to affordable sources of financing for export development.

2. The Marketing Chain: How Firms Find Markets

Key Findings

This chapter showed that personal connections are the most important way of beginning to export to foreign markets. The second most frequent avenue was through agents or distributors, and the internet was the third most popular method (especially for non-US markets). The more formal methods — federal and provincial trade agencies, partnerships, joint ventures, co-licensing agreements and export management companies — were far less common.

Policy Recommendations

1. Develop and implement opportunities to establish personal contacts and promote the use of personal contacts in trade planning seminars and promotional materials. Although this study did not explore the issue, it is reasonable to assume that one valuable way of establishing personal contacts would be attending trade shows and by participating in foreign trade missions and reverse trade missions (usually organized by federal and provincial trade agencies). They could be regarded as important intermediate steps in the process of establishing personal contacts and should not be unduly discounted.
2. Encourage the use of agents and distributors as a valid way of finding new markets, and assist exporters in connecting with credible agents and distributors.
3. Ensure that resources exist on the internet to help exporters make connections, particularly in non-US markets.

3. Challenges and Barriers to Exporting

Key Findings

In the first part of this chapter we examined the perceived barriers to exporting. It was clear that finding qualified labour is the most prominent barrier for both US and non-US markets. But the other barriers identified were significantly different depending on the market. Finding market information, the right contacts, financial resources, the right expertise, as well as coping with risk and uncertainty were much stronger barriers to non-US markets.

We also looked for evidence that selected firm characteristics may be associated with perceptions of barriers to non-US markets. In so doing, size, age, experience, family ownership, sector, province and stage of business development were examined. What we found is that experience in an export market — learning by doing — makes a difference. Beyond that there was no evidence to suggest that any of the other characteristics have much influence on how firms perceive barriers.

Policy Recommendations

1. Help firms find the labour required for exporting endeavours. In the context of this study, the labour requirement is associated with employees that possess specific exporting skills. Options for assistance could include matchmaking services for firms and potential employees (especially recent graduates), or financial incentives for either firms or potential employees.
2. Recognize in trade education and promotional efforts that it is more difficult to begin exporting to non-US markets than to the US market (US border difficulties aside), and organize exporting and trade promotional material and services accordingly.
3. In recognizing the importance of “learning by doing”, create mentoring programs or opportunities for experienced exporters to share their skills and experiences with others.

4. International Trade Administrative Procedures as a Barrier to Exporting

Key Findings

The most important finding from this chapter is that problems with customs authorities and obtaining adequate customs information are the most prevalent barriers, and respondents found they applied to the US market to a much higher degree than in non-US markets. Problems with import licensing, tariff allocation systems, and phytosanitary regulations were much less prevalent.

Policy Recommendation

1. Canada must continue to work with all trading partners, but especially the US, to improve the speed and ease with which Canadian exports enter foreign markets and to provide up to date, accurate, easily accessible customs information.

5. Experience with Canada-US Border Security

Key Findings

This chapter shows that increased Canada-US border security measures are penalizing Canadian firms heavily. From the perspective of Western Canadian firms, the thickening border amounts to the equivalent of a ‘border tax’ on entry into Western Canada’s most important export market.

As well, the variation reported by firms across the Western provinces in experiencing border difficulties is intriguing. Since other factors such as firm size, industry sector, and export intent play no explanatory role, we must assume that this is due to the inconsistent application of border crossing procedures or an imbalance in border crossing infrastructure. Either way, the issues must be addressed if Western Canada is to increase its exports to the US.

Policy Recommendations

1. More must be done to expedite trans-border shipments to the US. With slightly more than one of every eight firms contemplating a move to the US in order to cope with the challenges of a thickening border, this is an obvious area for policy intervention.
2. Canada must explore the reasons for, and take steps to eradicate, the inconsistencies in border crossing procedures.

6. Indirect Exporting and Foreign Suppliers

Key Findings

This chapter examines the role of indirect exporting and foreign suppliers and serves to reinforce how closely Western Canadian firms are tied to the international economy. The point is that Western participation in international trade cannot be judged solely by considering exports and the share of revenues derived from exports. We cannot lose sight of the important role that many firms play in supplying other exporters, and of the role that foreign suppliers play in the value added chain.

Policy Recommendations

1. More research should be undertaken to gain a better understanding of the role Western Canadian firms play in supplying other exporters. A key area to explore is the potential size of the market for supplying exporters, and how much of that market is being served by foreign firms as opposed to Western Canadian firms.
2. More research should also be undertaken in gaining a better understanding of how the international value added chain is affecting Western Canadian firms. International evidence suggests that the value of imports in exported products is increasing at a rapid level. Is this the case in Western Canada, and if so, what are the implications for initiatives such as trade corridors and free trade zones?

Appendix A. Profile of Survey Respondents

Survey Sample

The 387 firms sampled consisted of those with less than 100 employees. They were primarily manufacturing firms with a small proportion of the sample (21 respondents) in professional and technical services. A necessary condition for inclusion in the sample was that they were exporters, that is, they sold either to the US and/or to other international markets. The profile that follows covers a number of selected distinguishing features of both the businesses and their owner/operators. These include location by *province*, *age of firm*, *owner gender*, *sales revenue* derived in the export markets and others.

Provincial Distribution

The strongest representation of respondents is from British Columbia and Alberta reflecting their larger business populations. Sampling in Manitoba and Saskatchewan was smaller but sufficient in size to provide some meaningful findings.

Table A.1. Provincial Distribution of Survey Respondents

	Number of Firms	% of Respondents
Alberta	123	31.8
British Columbia	127	32.8
Manitoba	69	17.8
Saskatchewan	68	17.6
Total	387	100.0

Source: WCER

Industry Classification

The industry classification of the sample is dominated by *durable manufacturing* firms with a smaller sampling of *non-durable manufacturing* firms and of *professional, scientific and technical services*.

Table A.2. Industry Composition of Survey Respondents

Industry Classification (NAICS)	Number of Firms	% of Respondents
Durable manufacturing	311	80.4
Non-durable manufacturing	55	14.2
Professional, scientific, technical services	21	5.4
Total	387	100.0

Source: WCER

Age and Stage of Development of Firms

The firms in the survey are generally well established with almost 90% being in business for more than 10 years. Respondents were also asked to describe the *stage of development* of the business at the present time. About three-fifths (61.8%) of those surveyed assessed their stage of development as one of steady growth. The sample contains very few firms that are either starting up or winding down operations.

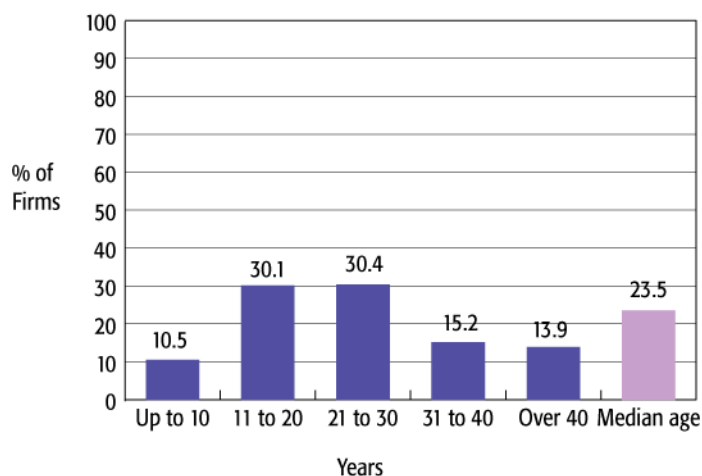
Table A.3. Age of the Business

Age	% of respondents
Up to 10 years	10.5
11-20 years	30.1
21-30 years	30.4
31-40 years	15.2
over 40 years	13.9
Total	100.1*
Median age	23.5 years

*Error due to rounding.

Source: WCER

Figure A.1. Age of the Business



Source: WCER

Table A.4. Stage of Development of the Business

Stage of Development	% of respondents
Start-up	0.8
Established—steady growth	61.8
Established—fast growth	13.2
Established—but little growth	20.9
Winding down or reducing the size of operations	3.4
Total	100.1*

*Error due to rounding.

Source: WCER

Size of Firms

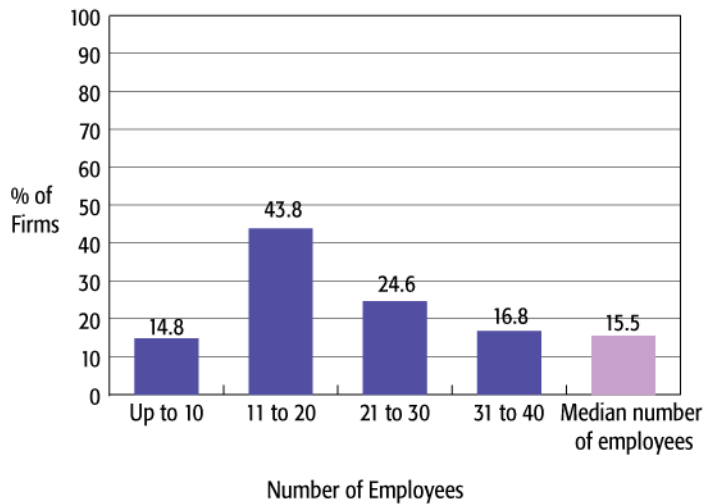
A plurality of firms is in the 5 to 19 employee category and the group median number of employees is 15.5.

Table A.5. Size by Number of Employees

Number of Employees	% of Respondents
0 to 4	14.8
5 to 19	43.8
20 to 49	24.6
50 to 100	16.8
Total	100.0
Median number of employees is 15.5	

Source: WCER

Figure A.2. Size by Number of Employees



Source: WCER

Ownership

Family owned enterprises constitute just over one-half (53.8%) of the sample.

Table A.6. Family and Non-family Ownership

Type of Ownership	% of respondents
Family	53.8
Non-family	46.2
Total	100.0

Source: WCER

Export Revenue of Firms

The condition for inclusion in the survey was that the business be an exporter either to the US market, to other international markets or to both. The share of sales revenues accounted for by exports in the most recent year is shown in Table A.7 with the median share amounting to 30.0%.

Table A.7. Share of All International Exports in Total Revenues

Share of Revenues	% of respondents
Less than 10% (low intensity)	27.9
10 to 25% (medium intensity)	18.1
26 to 50% (high intensity)	20.7
More than 50% (very high intensity)	33.3
Total	100.0
Median share	30.0

Source: WCER

The distribution is bi-modal with the largest class intervals consisting of low intensity and very high intensity exporters.

Information was also obtained separately on export revenues derived from US sales and from sales to other international markets. The results show median share of revenue to be 22.0% for the US market and 5.0% for other international markets.

Table A.8. Share of US Exports in Total Revenues

Share of Revenues	% of respondents exporting to the US Markets	% of respondents exporting to Other International Markets
Less than 10% (low intensity)	33.7	67.4
10 to 25% (medium intensity)	22.1	12.6
26 to 50% (high intensity)	23.3	10.4
More than 50% (very high intensity)	20.9	9.6
Total	100.0	100.0
Median share	22.0	5.0

Source: WCER

The survey also asked respondents to evaluate *the growth and stability* of their export revenues in the US and other international markets over the past five years. Their experience in the export markets is found in Table A.9 with a plurality reporting fluctuations in sales.

Table A.9. Pattern of Sales Over the Past 5 Years

	% of US Exporters	% of Other International Exporters
Growth in percent of total sales	32.6	37.7
Stability in percent of total sales	24.1	18.9
Fluctuations in percent of total sales	43.2	43.4
Total	99.9*	100.0

*Error due to rounding.

Source: WCER

Owner Characteristics

Gender shows ownership is male dominated in all provinces but slightly less so in British Columbia.

Table A.10. Owner Gender: Percent by Province

	AB	BC	MB	SK	Western Canada
Female	8.9	16.5	10.1	10.3	12.0
Male	91.1	83.5	89.9	89.7	88.0
Total	100.0	100.0	100.0	100.0	100.0

Source: WCER

The *age* of respondents by gender is found in Table A.11. The overwhelming majority of both males and females were 40 years of age and over.

Table A.11. Age of Owner/Operators by Gender: Percent

	Female	Male
Under 40 years	11.4	6.6
40 and over	88.6	93.4
Total	100.0	100.0

Source: WCER

Table A.12 reports on whether the *owner/operator was active in the business*. The results indicate a high degree of owner involvement.

Table A.12. Owners Active in the Business: Percent

	Female	Male
Yes	95.5	91.4
No	4.5	8.6
Total	100.0	100.0

Source: WCER

Table A.13 indicates how the *current owner became involved in the business*. Three-fifths started the business, approximately one-third acquired the business through purchase, and a small number obtained it through inheritance.

Table A.13. Distribution of the Origin of Business Ownership Percent

	Female	Male
Started the business	57.8	61.0
Acquired the business	33.3	31.7
Inherited the business	8.9	7.3
Total	100.0	100.0

Source: WCER

Table A.14 reports the distribution of *Canadian-born* and *foreign-born* owners and indicates that almost four-fifths (78.6%) were born in Canada.

Table A.14. Canadian and Foreign Born Owners: Percent

Canadian-born	78.6
Foreign-born	21.4
Total	100.0

Source: WCER

The survey ascertained the *foreign work experience* of owners. The results for Canadian-born and foreign-born owners are reported in Table A.17. About one-quarter (26.1%) of the Canadian born owners compared to almost three-quarters (72.7%) of the foreign-born had foreign work experience.

Table A.15. Owners with Foreign Work Experience: Percent

	Canadian-born	Foreign-born
With foreign work experience	26.1	72.7
No foreign work experience	73.9	27.3
Total	100.0	100.0

Source: WCER

The median years of foreign work experience for those Canadian-born owners who have had jobs abroad was 2.0 years compared with 6.5 years for foreign-born.

Table A.16. Years of Foreign Work Experience: Percent

	Canadian-born	Foreign-born
1 year or less	34.3	3.8
2 to 5 years	42.9	40.4
6 to 10 years	8.6	23.1
More than 10 years	14.3	32.7
Total	100.1*	100.0
Median years of experience	2.0	6.5

*Error due to rounding.

Source: WCER

Respondents were also asked if they had *export experience* before working in their business. Export experience is more prevalent among foreign-born owners.

Table A. 17. Respondents with Prior Export Experience: Percent

	Canadian-born	Foreign-born
With export experience	29.5	44.2

Source: WCER

The survey also sought to identify more precisely the *business goals* of respondents. They were asked to respond on a 5 point Likert scale to statements about the importance of (a) *making the business grow*; (b) *increasing the profitability of the business*; and (c) *achieving a balance between work and family*. The percent distribution of responses shows the complex nature of these goals with the majority of firms holding business growth and maintaining a balance between work and family to be *very important*, and a substantial majority believes that increasing the profitability of the firm to be *very important*.

Table A.18. Likert Choices of Selected Business Goals: Percent Distribution

	Making the business grow	Increasing the profitability of the business	Achieving a balance of work and family
Not at all important	2.8	0.8	1.3
Not very important	4.1	1.6	5.8
Neutral	11.4	9.3	18.4
Important	23.6	15.3	19.4
Very important	58.0	73.1	55.1
Total	99.9*	100.1*	100.0

*Error due to rounding.

Source: WCER

Organizational Constraints in Exporting to US Markets

The most notable feature of these results is that for every category, with the exception of the *availability of qualified labour*, difficulties in exporting to the US are perceived to be less than in exporting to other international markets. This confirms the view that international trade flows will be dominated by business between neighbours. In other words, geographic proximity is a powerful determinant of trade.

In general there is substantial uniformity across provinces in the perceptions of organizational constraints to exporting with some exceptions.

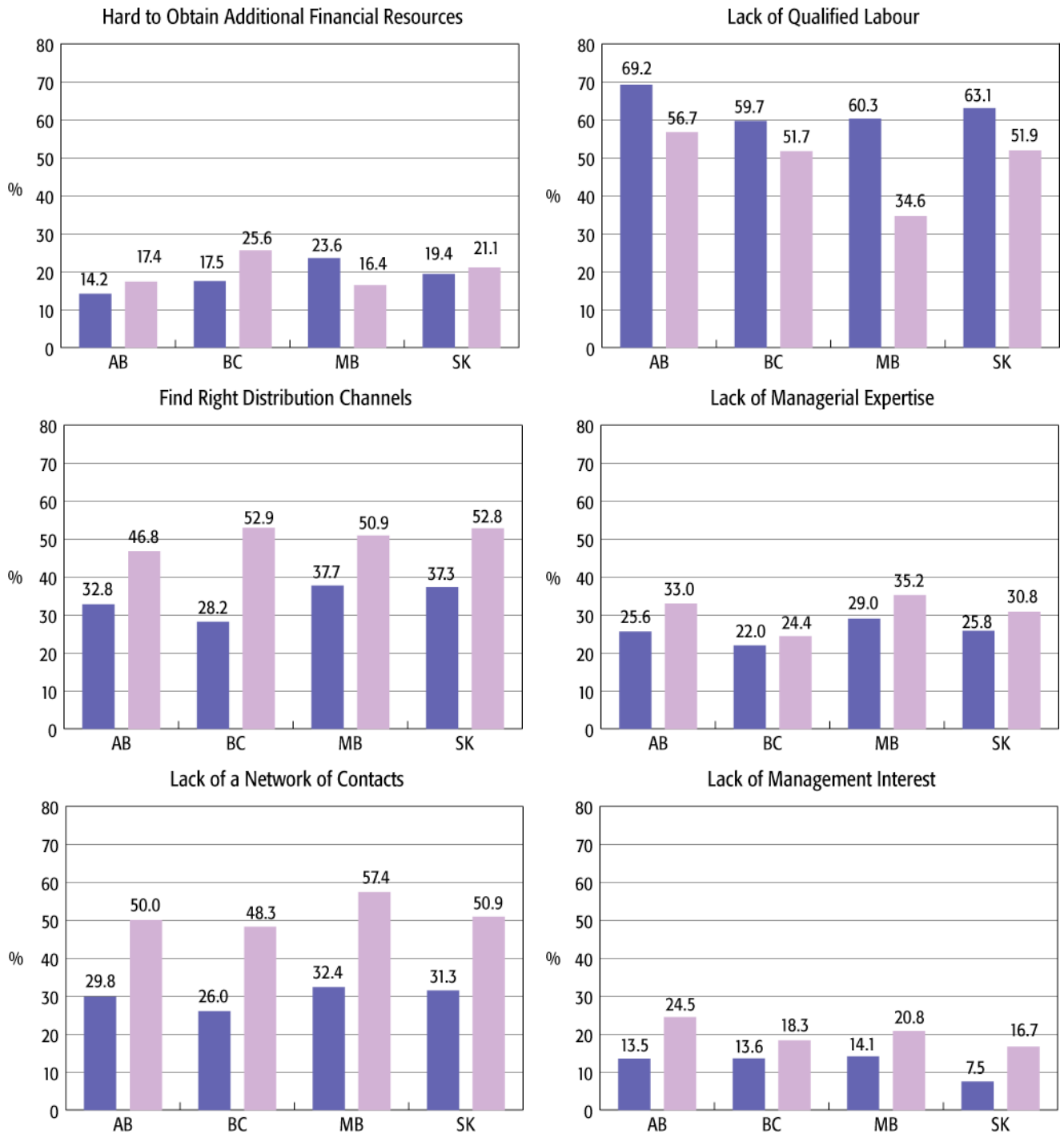
Shortage of *qualified labour* is selected by considerably more than one-half of the respondents in all provinces. Difficulties that relate to information and marketing, viz., *finding suitable networks*, *getting the right distribution channels* and *obtaining reliable market information* are the next most frequently encountered problems. The information and marketing issues indicate that these will be of major importance in the further development of exports to other international markets. Managerial issues – *lack of managerial expertise* and a *pre-occupation with other geographic markets* (somewhat greater in Saskatchewan) – were also noted by approximately one-quarter of those surveyed.

Small businesses in Manitoba and Saskatchewan perceived an *increased risk and uncertainty* of exporting to the US. *Obtaining additional financing* appears more prevalent in Manitoba.

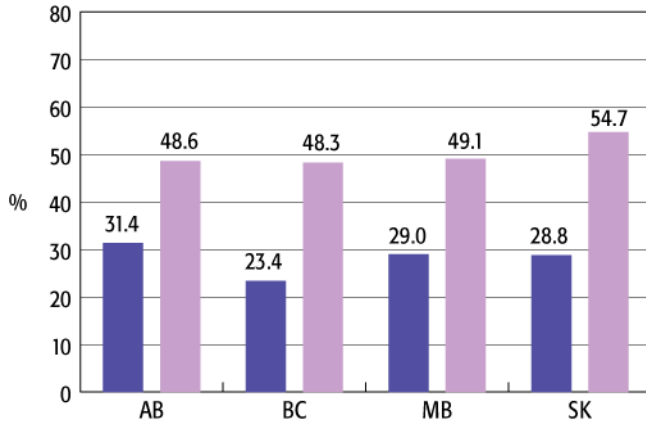
The simple average unweighted response rate for all barriers varies from 25.2% in British Columbia to 29.4% in Manitoba for all organizational exporting barriers to the US, and from 35.2% in British Columbia to 37.1% in Alberta for organizational exporting barriers to other international markets.

Figures B.1. Organizational Constraints in Export to US Markets: Percent of Firms Perceiving

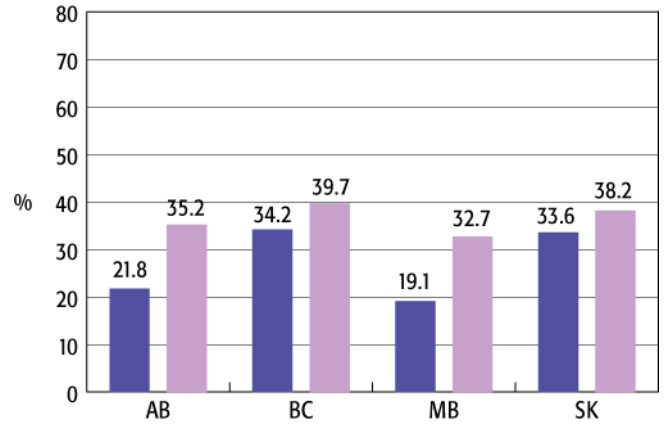
Barrier by Province



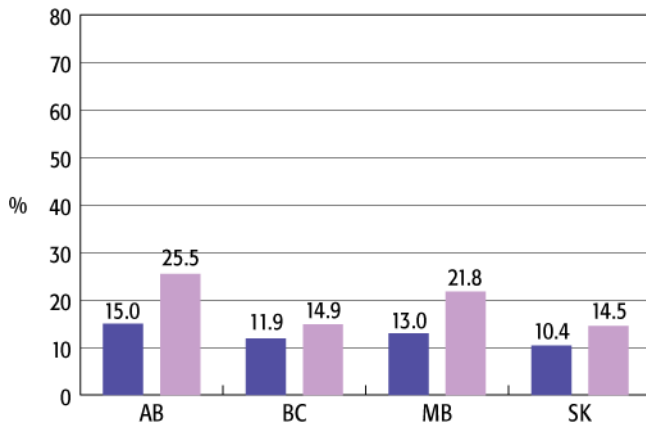
Reliable Market Information



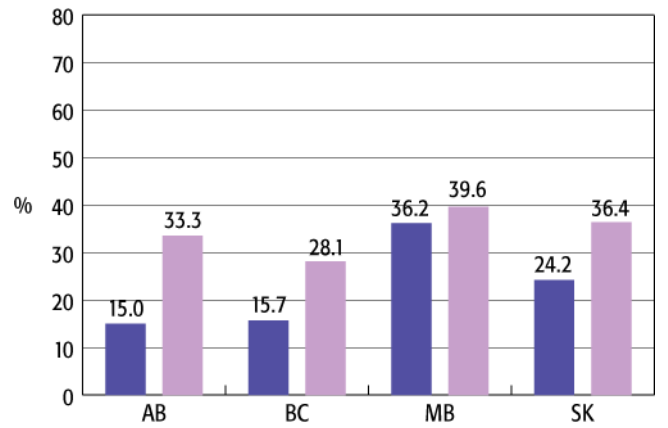
Preoccupation with Other Geographical Markets



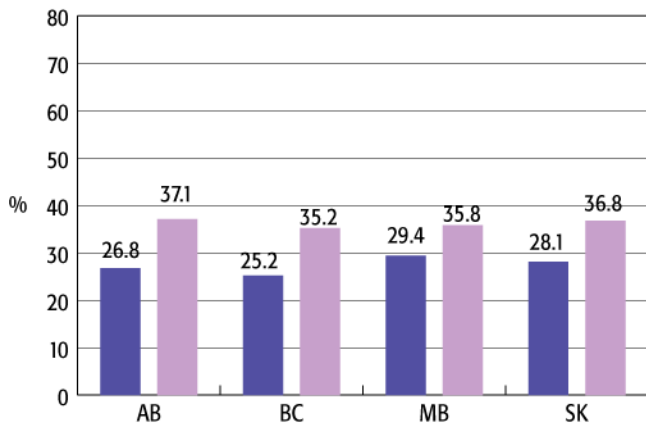
Fear of Loss of Product Control



Too Much Added Risk and Uncertainty



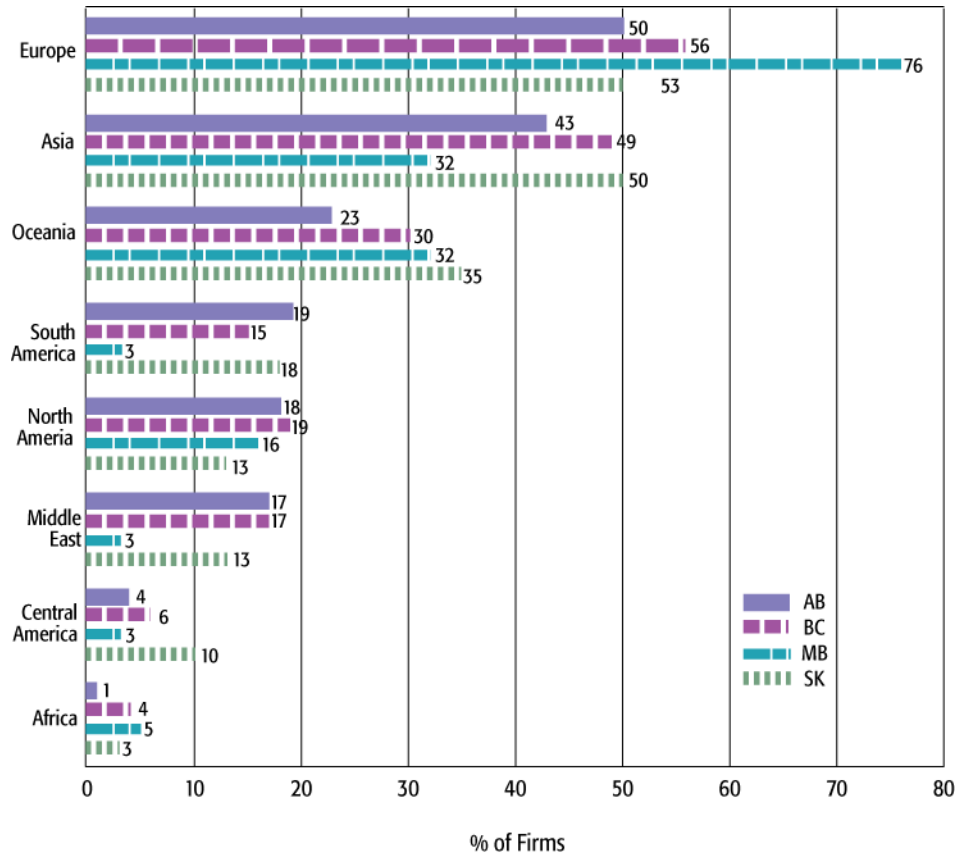
Average



Regional Markets (Other International)

A majority of survey participants in each province export to Europe. The next most common destination was Asia, showing the rising importance of this market. Oceania was the third most common market. Again what is notable here is the substantial uniformity across provinces particularly with respect to these three regional markets, although Manitoba small businesses relied more heavily on European markets and less so on Asian markets.

Figure B.2. Export Markets: Percent by Province

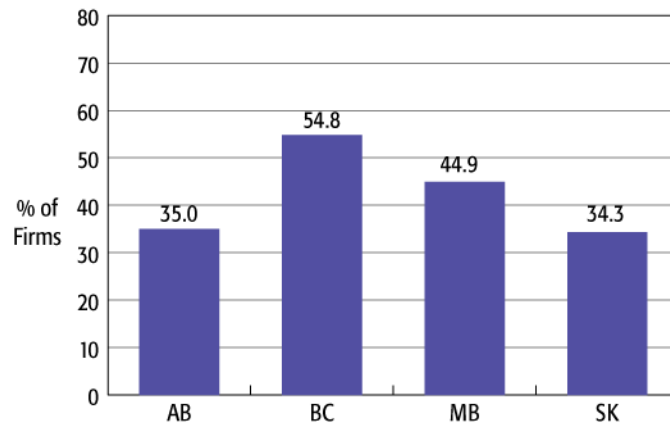


*Excluding the US.

US Anti-Terrorism/Border Security Policies

Recent changes to US and Canadian *border procedures* are seen as barriers to trade by many small businesses in Western Canada. More than half of British Columbia respondents compared with slightly more than one-third of respondents in Alberta and Saskatchewan indicated that export activities had been impacted. Manitoba is midway between these extremes.

Figure B.3. Firms Who See US Anti-Terrorism/Border Security Policies as Barriers: Percent by Province

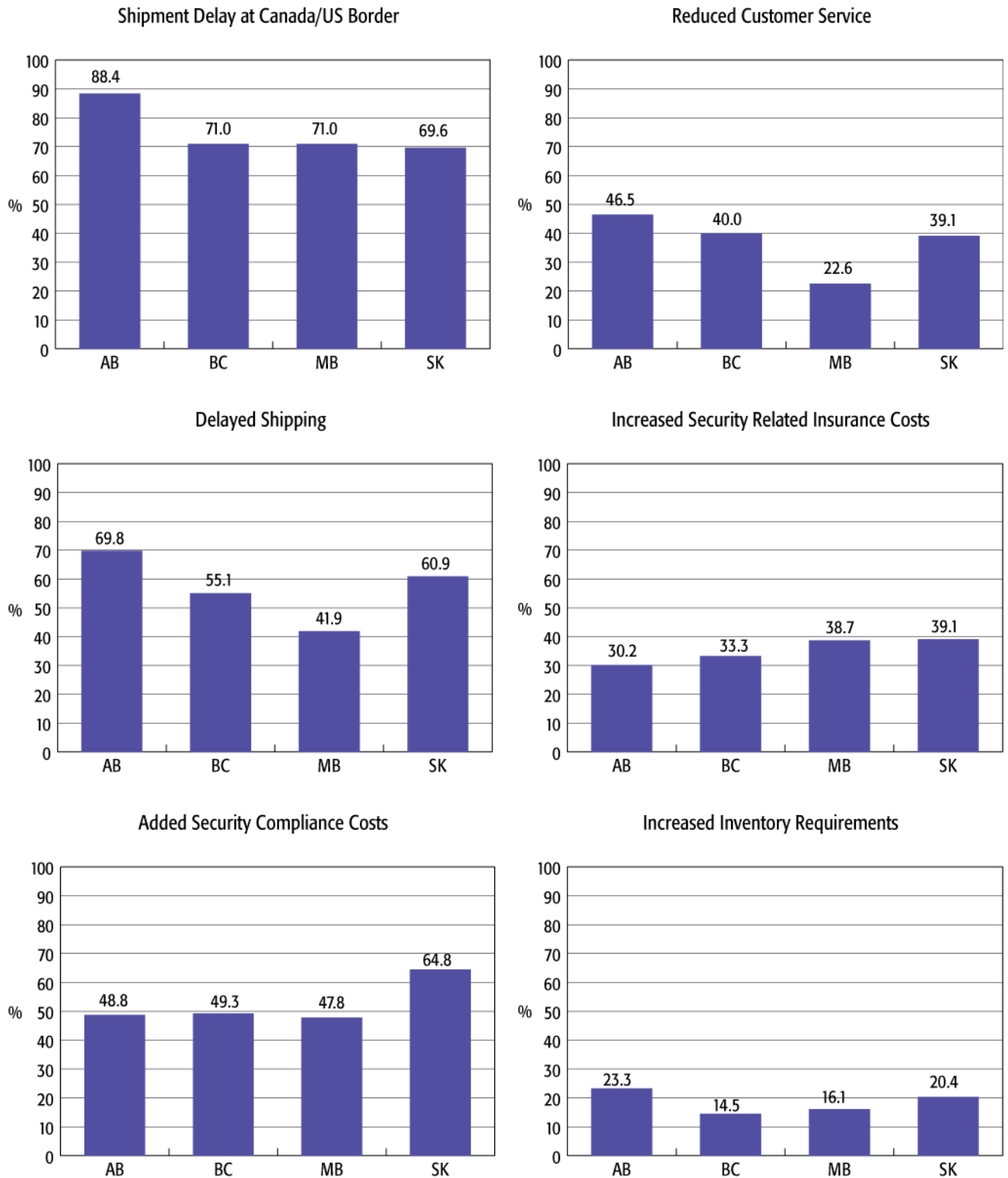


Source: WCER

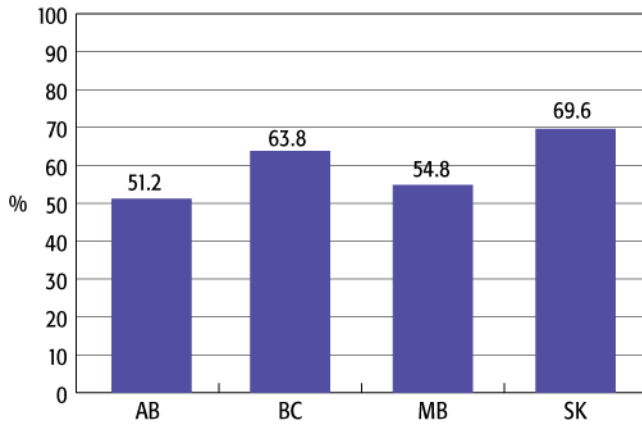
We next consider the areas of business operations and exporting affected by *Border Security* policies. The following figures apply to those respondents who indicated that their operations were affected by these policies, that is, for example, the 35.0% of Alberta firms so responding.

It is obvious that the entire range of problems accompanying border security have been experienced in each province. Shipping delays, increased transport and security compliance costs top the list. The result has been a lowering of profits and reduced customer service.

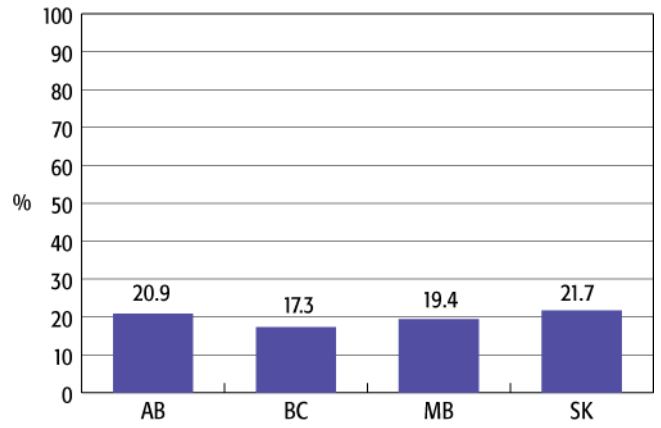
**Figure B.4. Firms who see US Anti-Terrorism/Border Security Policies as Barriers:
Percent by Province.**



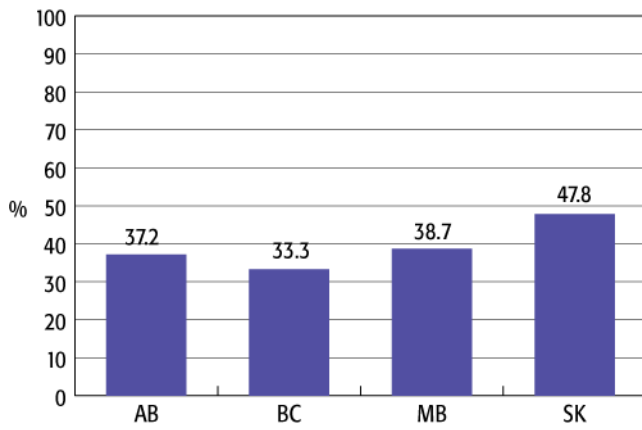
Increased Transportation/Shipping Costs



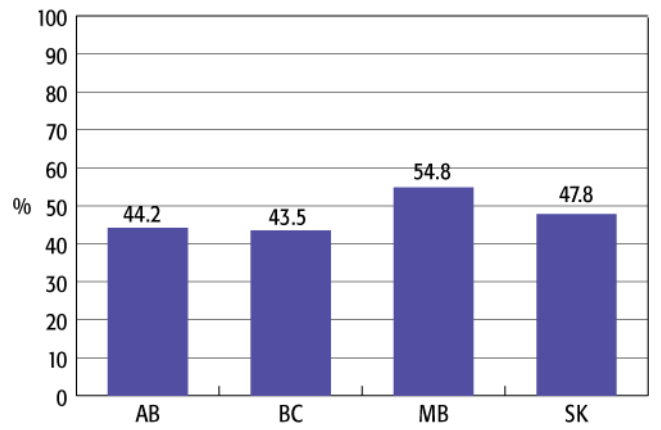
Increased Storage/Warehousing Costs



Disruption Just in Time Logistics Systems



Lower Profits



Firm and Owner Characteristics

Provincial breakdowns of firm and owner characteristics are shown below in Tables B.1 and B.2, respectively.

Alberta

Of the 123 Alberta SMEs included in the survey, one-quarter of their sales revenues were derived from exports. While exports to the US clearly dominate, as they do in all provinces, almost one-half (44.6%) of respondents reported steady growth in sales to non-US international markets over the past five years compared to 30.8% reporting steady growth in sales to the US market.

Foreign born owners, at 21.4% of respondents, were not as prevalent as in British Columbia but were higher than in Manitoba and about twice as high as the share in Saskatchewan. Owner involvement in the business is the highest among the provinces.

British Columbia

The survey included 127 SMEs located in British Columbia. Four features of the British Columbia results bear comment. The first is that export revenues from both US and other international markets are the highest among the four provinces and by a considerable margin. Some 45% of exporters derived more than one-half of their sales revenues from exports.

The second notable feature is that a larger share of the owners are foreign born. Some 29% of respondents were foreign born owners, close to three times the share found in the other three provinces. No doubt this is a reflection of the fact that the province, and particularly the lower mainland area, has been the major Western Canadian destination for immigrants over many decades. A third feature is that female owners constitute about twice as large a share of respondents as in the other provinces.

Finally, the median size of responding SMEs, at 12 employees, is about one-quarter smaller than in the other provinces.

Manitoba

Of the 69 surveyed SMEs located in Manitoba, a larger proportion have experienced steady growth in sales to the US compared to other international markets. More than one-third of respondents (34.7%) derived over one-half of their sales revenues from exports, second to the British Columbia experience.

A notable feature of the Manitoba results is that family ownership, at 63.8%, is more prevalent by a considerable margin — particularly when compared to the 37.3% of Saskatchewan SME respondents. In Manitoba, owner experience of working in a foreign country, at 18.5%, is less than one-half of the proportions found in Alberta and British Columbia. About one-half (51.5%) of respondents started the business, a figure substantially below that of the other three provinces. Acquisition and inheritance were more important.

Saskatchewan

In Saskatchewan, 68 SMEs were included in the survey. Interestingly, a larger share of respondents had the experience of steady growth in other international sales compared with sales to the US. As in the other provinces, the primary sources of future growth were deemed to be Canadian and US customers, both existing and new, rather than other international customers.

Unlike the other provinces, family businesses were less prevalent, accounting for just over one-third (37.3%) of respondents. This is also the province reporting the lowest preference for a balance of work and family among current business goals.

Table B.1. Firm Characteristics: Percent by Province

	AB	BC	MB	SK
Type of Business				
Manufacturing Durable	87.8	81.1	81.2	64.7
Manufacturing Non-Durable	8.9	12.6	17.4	23.5
Professional, Technical Services	3.3	6.3	1.4	11.8
Size of Firm (number of employees)				
0-4	16.3	18.1	10.3	10.3
5-19	39.8	45.7	45.6	45.6
20-49	22.8	25.2	26.5	25.0
50-99	21.1	11.0	17.6	19.1
Median	16.0	12.0	17.5	16.5
Stage of Development of Business				
Start-up	0.8	1.6	0.0	0.0
Established—steady growth	64.2	55.9	60.9	69.1
Established--fast growth	15.4	11.0	13.1	13.2
Established--Little Growth	17.1	25.2	24.6	16.2
Winding Down/Reducing Size	2.4	6.3	1.4	1.5
Age of Firm				
Less than 10 Years	5.9	7.1	14.7	20.8
11-20 Years	37.0	22.8	26.5	35.3
21-30 Years	33.6	36.2	19.1	25.0
31 to 40 Years	13.4	16.5	19.1	11.8
Over 40 Years	10.1	17.3	20.6	7.4
Median Age	22.0	25.0	25.0	20.0
Business Goals: Share regarding goal as 'important' or 'very important'				
Growth	77.5	81.9	89.8	83.9
Increasing Profitability	86.9	89.0	84.0	94.1
Achieving Balance of Work & Family	74.8	77.6	79.7	62.3

Table B.1. Firm Characteristics: Percent by Province (continued)

	AB	BC	MB	SK
Foreign Markets				
Sells to US Market	86.2	91.3	88.4	92.6
Revenue from US Market 1-10%	45.3	26.1	25.0	36.5
Revenue from US Market 11-25%	18.9	19.1	31.7	23.8
Revenue from US Market 25-50%	19.8	29.6	15.0	25.4
Revenue from US Market Over 50%	16.0	25.2	28.3	14.3
Revenue from US Market Median	20.0	35.8	21.0	20.0
Sells to Other International Markets	61.0	63.0	55.1	61.8
Revenue from Other International 1-10%	70.7	62.0	79.4	61.9
Revenue from Other International 11-25%	13.3	10.1	14.8	14.3
Revenue from Other International 26-50%	9.3	13.9	2.9	11.9
Revenue from Other International Over 50%	6.7	13.9	2.9	11.9
Revenue from Other International Median	5.0	9.0	5.0	6.0
Revenue from All Export Markets 1-10%	34.1	20.5	27.5	30.0
Revenue from All Export Markets 11-25%	22.0	13.4	20.3	17.6
Revenue from All Export Markets 26-49%	20.3	21.3	17.4	23.5
Revenue from All Export Markets Over 50%	23.6	44.9	34.8	27.9
Revenue from All Export Markets Median	25.0	45.0	27.0	26.0
Pattern of Sales to the US Market over the Past 5 Years				
Growth in % of Total Sales	44.6	31.9	37.3	30.2
Stability in % of Total Sales	17.6	23.9	16.9	28.6
Fluctuations in % of Total Sales	37.8	44.3	45.8	41.2
Pattern of Sales to Other International Markets over the Past 5 Years				
Growth in % of Total Sales	44.6	37.0	31.6	40.0
Stability in % of Total Sales	17.6	18.3	28.9	12.5
Fluctuations in % of Total Sales	37.8	44.7	39.5	47.5
Firms that Sell Their Product to Other Domestic Firms that in Turn Export	55.5	61.8	47.1	52.2

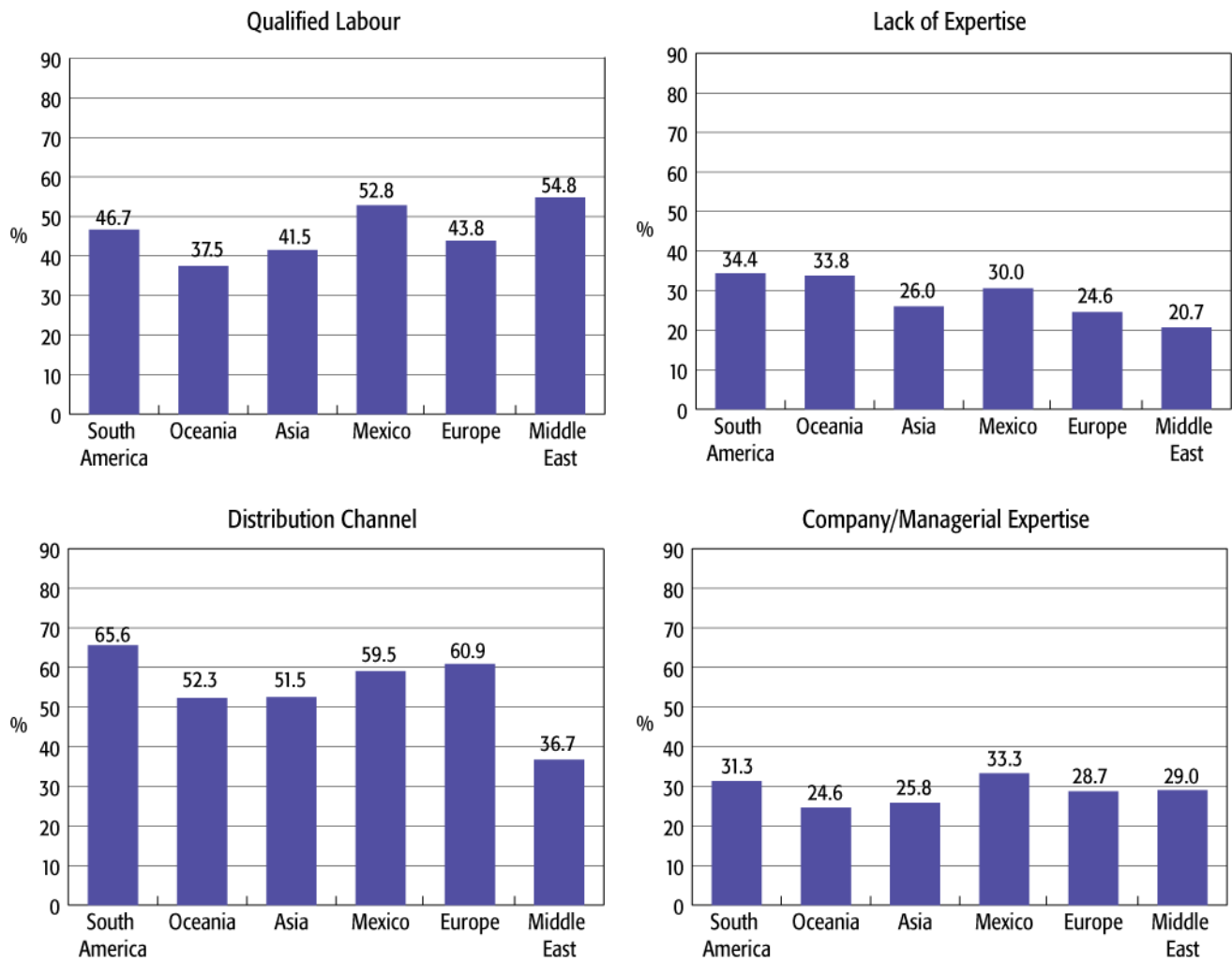
Table B.2. Owner Characteristics: Percent by Province

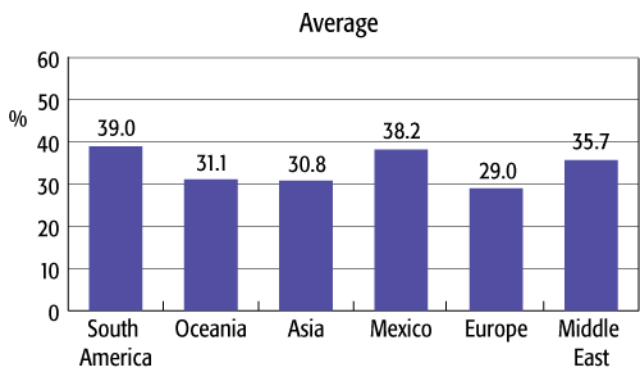
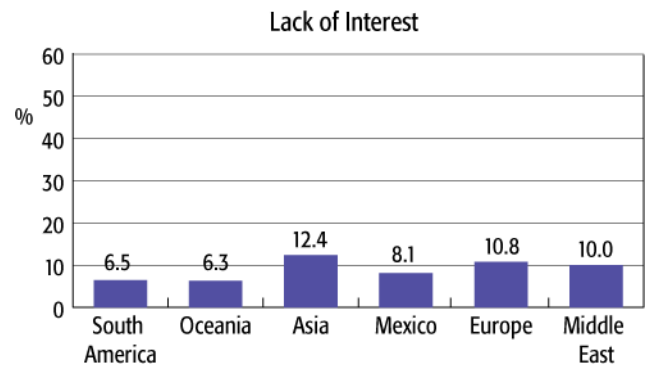
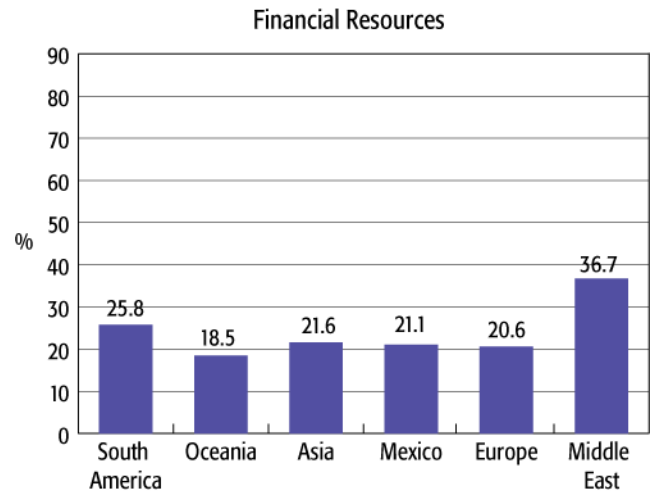
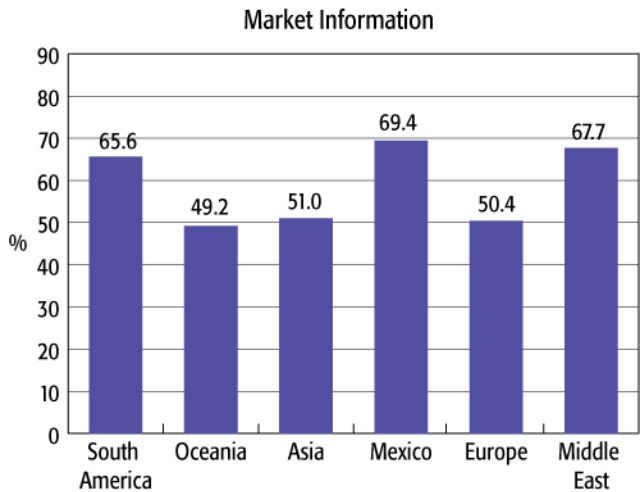
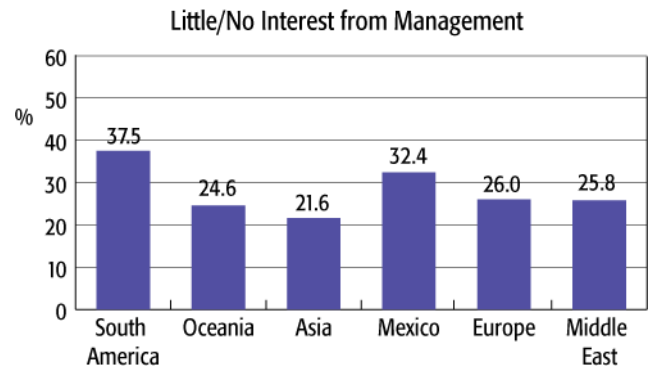
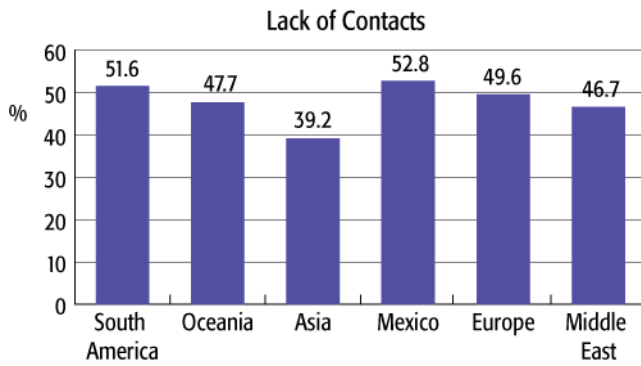
	AB	BC	MB	SK
Ownership				
Family	55.3	55.6	63.8	37.3
Non-Family	44.7	44.4	36.2	62.7
Have a Business Plan				
Yes	65.9	66.7	62.3	68.7
No	34.1	33.3	37.7	31.3
Growth is Objective in Business Plan				
Yes	92.6	91.4	93.0	97.8
No	7.4	8.4	7.0	2.2
Future Growth in Sales Will Come From				
Existing Canadian Customers	67.2	60.3	68.1	69.1
New Canadian Customers	76.9	73.6	69.6	80.1
Existing US Customers	81.0	73.6	78.3	67.2
New US Customers	81.7	76.8	77.9	70.1
Existing Non-US International Customers	50.9	45.7	43.3	47.6
New Non-US International Customers	56.4	54.3	50.0	55.6
Future Sales Growth from Existing Products/Services	88.2	81.9	81.2	92.5
Future Sales Growth from New/Products Services	69.2	54.3	63.8	82.1
Firms Will Respond to Sales Growth By				
Expanding Existing Business	89.4	92.0	90.2	90.0
Acquisition	9.6	8.0	8.2	10.0
Both	1.0	0.0	1.6	0.0
Owner Characteristics				
Female	8.9	16.5	10.1	10.1
Male	91.1	83.5	89.8	89.2
Under 40 Years of Age	6.8	5.0	10.8	8.2
40 Years of Age or Older	93.2	95.0	89.2	91.8
Owner is Active in Business	94.1	91.0	93.8	87.5
Owner is Inactive in Business	5.9	9.0	6.2	12.5
Canadian Born	78.6	70.8	83.1	88.7
Foreign Born	21.4	29.2	16.9	11.3
Owner Has Work Experience in a Foreign Country	41.7	41.3	18.5	35.0
Owner Has No Experience Working in Foreign Country	58.3	58.7	81.5	65.0
Owner Has Export Experience Prior to Working in the Business	29.8	38.8	28.1	31.7
Owner Has No Export Experience Prior to Working in the Business	70.2	61.2	71.9	68.3
Current Owner Started Business	68.0	58.7	51.5	60.3
Current Owner Bought Business	26.1	35.7	36.7	30.2
Current Owner Inherited Business	5.9	5.6	11.8	9.5
Median Years under Current Ownership in Years	17.0	18.0	18.0	14.0

Appendix C. Export Challenges by Region

The results for barriers as they apply to non-US markets are shown in Figure C.1, below. The survey asked respondents to name their three most important non-US markets (in terms of sales revenue) by country and these countries have been classified into regional groupings. These regions follow the same parameters used by Statistics Canada in their trade reports (see Endnotes 17 and 18). Since very few firms reported exporting to the Central America and Africa, it was difficult to draw any conclusions for exporters to these regions.

Figure C.1 Are Challenges to Exporting the Same throughout the World? Percent by Region





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Endnotes

- 1 Edward J. Chambers, R. Jean Frost and Stephen S. Janzen. *Western Canada's Small Business Markets: A Survey of Selling*. Western Centre for Economic Research: Information Bulletin #79 (2004).
- 2 Ibid.
- 3 Paul Ellis. Social Ties and Foreign Market Entry. *Journal of International Business Studies* 31 (2000): 443-469; Klaus Meyer and Ane Skak. Networks, Serendipity and SME Entry into Eastern Europe. *European Management Journal* 20 (2002): 179-188; Saeed Samiee. Exporting and the Internet: a Conceptual Perspective. *International Marketing Review* 15 (1998): 413-426.
- 4 Ellis, 2000.
- 5 Klaus and Skak, 2002.
- 6 Petersen, Bent, Welch, Lawrence, and Peter Liesch. The Internet and Foreign Market Expansion by Firms. *Management International Review* 42 (2002): 207-221.
- 7 Other avenues may be suggested. For example, government agencies may be useful in informing the business of individuals or groups abroad who could open up possibilities; domestic customers of the firm who are also exporters could provide 'tips' that open up networking possibilities; and simply attendance at trade shows has the secondary benefit as an obvious venue for making useful contacts.
- 8 Leonidas C. Leonidou. An Analysis of the Barriers of Hindering Small Business Export Development. *Journal of Small Business Management*, 42 (2004): 279-302.
- 9 Ibid and W. J. Burpitt and D. A. Rondinelli. Small Firms' Motivations for Exporting: To Earn and Learn. *Journal of Small Business Management*, 38 (2000): 1-14.
- 10 Ibid; Charles Dhanaraj and Paul Beamish. A Resource Based Approach to the Study of Export Performance. *Journal of Small Business Management*, 41 (2003): 242-261; Zulima Fernández and María Jesús Nieto. Impact of Ownership on the International Involvement of SMEs. *Journal of International Business Studies*, 37 (2006): 340-351; Francisco Requena-Silvente. The Decision to Enter and Exit Foreign Markets: Evidence from U.K. SMEs. *Small Business Economics*, 25 (2005): 237-253; Paul Westhead, Mike Wright and Deniz Ucbasaran. The Internationalization of New and Small Firms: A Resource-Based View. *Journal of Business Venturing*, 16 (2001): 333-358.
- 11 Anderson and van Wincoop offer a comprehensive summary of the research into these costs and find that they are substantial. James Anderson and Eric van Wincoop. Trade Costs. *Journal of Economic Literature*, 42 (2004): 691-751.
- 12 Andersen and van Wincoop, 2004.
- 13 A nominal scale like this offers less fine tuning of information than an ordinal scale but we chose it on the pragmatic basis that it was more likely to maintain the willingness of respondent participation.
- 14 Note that respondents were not instructed to limit their response to one channel as the act of market entry may be pursued in more than one way. For example, 21 respondents indicated that they combined personal connections with use of the internet.
- 15 An example of such a trade report can be found at <http://www.statcan.ca/english/freepub/65-001-XIB/65-001-XIB2007005.pdf>. The breakdown of economic region by country can be found on pp. 36-39.
- 16 Note that these results refer to perceived challenges when exporting to international markets, including the US; the results for the North American region here relate primarily to Mexico.
- 17 Oceania includes American Samoa, Australia, Christmas Island, Cocos (Keeling) Islands, Cook Islands, Fiji, French Polynesia, Guam, Heard Is. and McDonald Islands, Kiribati, Nauru, New Caledonia, New Zealand, Niue, Norfolk Island, Papua New Guinea, Pitcairn, Samoa, Solomon Islands, Tonga, U.S. Minor Outlying Islands, Vanuatu, Wallis and Futuna.
- 18 North America includes Greenland, Mexico, St. Pierre and Miquelon, Canada and the US.
- 19 See Endnote 17.
- 20 Dhanaraj and Beamish 2003; Fernandez and Nieto, 2006.
- 21 Lance E. Brouthers and George Nakos. The Role of Systematic International Market Selection on Small Firms' Export Performance. *Journal of Small Business Management*, 43 (2005): 363-381.
- 22 Constantine S. Katsikeas and Robert E. Morgan. Differences in Perceptions of Exporting Problems Based on Firm Size and Export Market Experience. *European Journal of Marketing*, 28 (1994): 17-35.

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- 27 Fernandez and Nieto, 2006.
- 28 Burpitt and Rondinelli, 2000.
- 29 Brouthers and Nakos, 2005.
- 30 Hutzschenreuter, Guenther and Oehring, 2005.
- 31 See S. Stephen Janzen, Stuart E. Shaw and R. Jean Frost. *Alberta's Small and Medium Sized Enterprises and their Export Activity*. Western Centre for Economic Resource: Information Bulletin #70, 2002.
- 32 Chambers, Frost and Janzen, 2004.
- 33 The following experience categories are used: 5 years or less; 6 to 10 years; 11 to 20 years; and more than 20 years.
- 34 Our sample is limited to between the 196 and 205 firms answering the respective barrier questions.
- 35 For the distribution barrier the Chi-square probability was = .06. Conventionally, significance is seen at less than .05. As the Chi-square increases above .05 the likelihood that the observed association occurred by chance increases
- 36 Fernandez and Nieto, 2006.
- 37 Ibid.
- 38 Michael Frenkel and Ralf Fendel. Do Small and Medium-Sized Enterprises Stabilize Employment? - Theoretical Considerations and Evidence from Germany. *Zeitschrift für Wirtschafts- und Sozialwissenschaften* 118 (1998): 163-184.
- 39 Phytosanitary regulations protect human, animal and plant life from pests and disease and regulate food additives, toxins, contaminants, and disease-causing agents.
- 40 S. Stephen Janzen and Jean Frost. *Alberta Non-Tariff Trade Barriers Study, 2000*. Western Centre for Economic Research: Information Bulletin #58, 2000.
- 41 See Endnote 18 for countries included in North America.
- 42 Chambers, Frost and Janzen, 2004.



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