SMALL FIRMS IN THE EAST MIDLANDS KNITTED OUTERWEAR INDUSTRY: EXPORT ACTIVITY, POTENTIAL AND CONSTRAINTS

by

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ABSTRACT

This research is an account of an exploratory study into the export performance of small, independent companies operating in the East Midlands engaged in the manufacture of knitted outerwear. Small firms constitute approximately 85% of the total number of enterprises in the knitting industry and the knitted outerwear sector is the largest part of the industry. In view of the importance attached to exporting by the Knitting Industry Sector Working Party the Study attempts to evaluate the export performance; its determinants; and the constraints on the small independent firms raising their present level of exports.

Following a literature search to obtain background information on the knitting industry a research sample was formed conforming to certain definitional requirements. To test the contention that the financial characteristics, as revealed in published accounts, of exporters differed from those of non-exporters a search of the Companies House files of a population sample was undertaken. Analysis of this financial data proved inconclusive.

In order to investigate any qualitative and financial differences, not disclosed in published accounts, an interview survey was conducted amongst a subset of the companies examined in the Companies House study. Three categories of enterprise were identified, non-exporters, dabblers and committed exporters. These were differentiated on the basis of their commitment to exporting and past export performance. This schematic representation is portrayed in a matrix format.

The motivations to export revealed originate from a desire for corporate survival and the potential for future growth offered by market diversification. The constraints to exporting identified are both real and perceived, largely based upon fear of the unknown based on a lack of detailed market information on overseas markets; lack of managerial resources and paucity of specific information from existing sources.

Possible methods of reducing or overcoming the barriers to exporting by small manufacturing enterprised are discussed in the context of exporting facilities and the characteristics of the small firms sector in the United Kingdom.

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CHAPTER 1

INTRODUCTION

1.1 Outline of the Research Topic

This study is concerned with some of the factors affecting the export performance of independent, small[a] knitted outerwear[b] manufacturers incorporated prior to 1973 and currently operating in the East Midlands.[c] The study was designed to investigate the hypothesis that the small firms sector of the knitwear industry can make a contribution to the Knitting Industry Sector Working Party's (SWP) export objective.[d] The project examined some of the factors affecting the export performance and behaviour of the firms constituting the research population.

Due to the constraints imposed by time and cost the restricted industry sector coverage inevitably limits the general implications and applicability of the results. However, it is felt that even a limited enquiry can be justified by the importance of the industry (it is one of the 40 industries designated by the Government Industrial Strategy as vital to Britain's future prosperity)[1] and by the paucity of detailed research into the export performance of small firms. In this introductory chapter the knitting industry is described; outlining its size, industrial structure, geographical location and the fashion dimension.

1.2 Description of the Knitting Industry

According to the Census of Production,[2] the U K hosiery and knitwear industry consists of those firms "... whose main business activity is the manufacture of hosiery and other knitted products".

A variety of characteristics are to be found within the group in industries generically known as "knitting". Too often this sector is treated as a homogenous whole - or divided between hosiery and knitwear. The knitting industry can be disaggregated by products manufactured and/or by manufacturing process. A broad division can be made between four sectors of knitting: hosiery (socks, stocking, and tights), fabrics, underwear (briefs and lingerie including nightwear) and outerwear (jumpers, cardigans, dresses, separates plus accessories such as gloves and scarves). In value terms the knitted outerwear is the largest sector accounting for approximately 43% of the industries £1,000 million sales in 1977.[3]

Within each sector products are manufactured using one, or more, of the three methods of manufacture:-[4]

(i) Flat weft knitting: this method is used to manufacture fully fashioned knitwear and hosiery. This process allows stitches to be added or taken away, and thus the garment can be shaped and fashioned;

(ii) Circular knitting: this mode of knitting enables large quantities of fabric to be produced relatively quickly in either body lengths (for cut and sew garment manufacture) or in long lengths of fabric. As stitches cannot be added or removed shaping is not possible;

(iii) Warp knitting operates on the crochet principle for the production of material for lingerie, shirts, net curtains and nightwear.

Geographically enterprises in the knitting industry are distributed throughout the British Isles.[e] Two major concentrations of the industry exist, the larger being located in the East Midlands, particularly Leicestershire and Nottinghamshire, (see Figure 1) and the other significant centre of the industry being Scotland. Department of Trade and Industry statistics estimate that 60% of the industry's 120,000 labour force is employed by establishment situated in the East Midlands. Nationally approximately two thirds of the employees are female, and in the East Midlands the knitting industry accounts for one in every eight jobs in manufacturing industry. A further 12% of the labour force is situated in Scotland.[5]

The industry is a conglomeration of small, medium and larger sized firms and groups, and the majority of the enterprises are small and very small (see Table 1). Of the industrys 825[6] enterprises controlling 1,100 establishments 85% employed fewer than 200 persons yet the 5% of companies employing more than 500 people accounted for 43% of total employment.

ADMINISTRATIVE AREAS IN THE EAST MIDLANDS
From April 1974

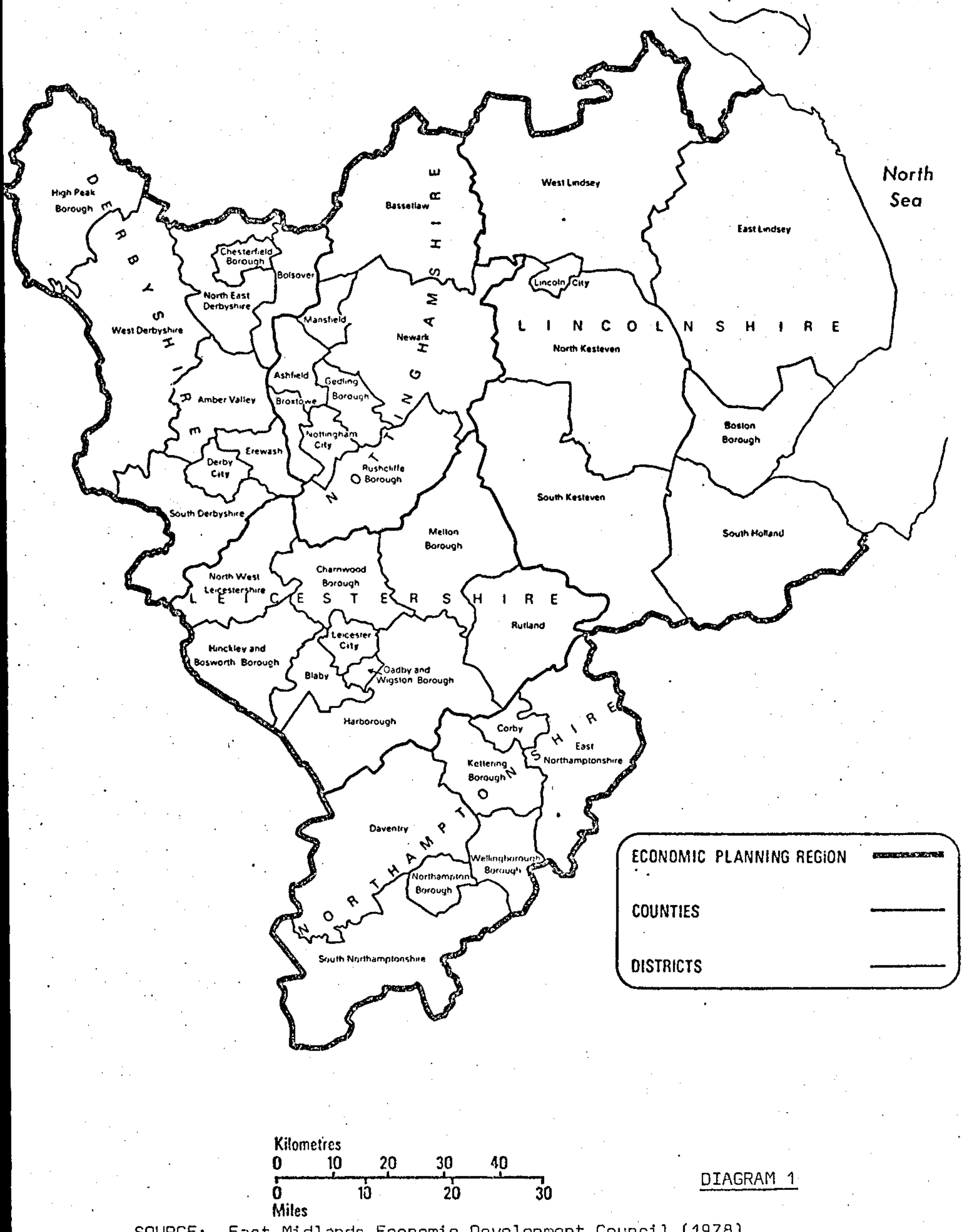


DIAGRAM 1

SOURCE: East Midlands Economic Development Council (1978)

The structure of the knitting industry has been influenced by the financial involvement of the major man-made fibre producers (Carrington-Viyella, Courtaulds and Coats Paton) which sought to have an interest in the survival of their chief customers who, during the 1960's faced financial problems (see Chapter 2).

In crude terms, it can be argued that one of the major characteristics differentiating the East Midlands knitting industry from its Scottish counterpart is the nature of the yarns used. The proportion of natural fibres (particularly wool) used in the Scottish industry is far greater than in the East Midlands.

TABLE 1

Number of Employees	Number of Establishments(a)	Number of Enterprises(a)	% of Enterprises
1- 10	384	378	39.7
11- 19	168	162	17.0
20- 49	168	167	17.6
50- 99	139	129	13.6
100- 199	108	88	9.2
200- 299	41	35	3.7
300- 399	22	20	2.1
400- 499	14	14	1.5
500- 749	19	15	1.6
750- 999	5	4	0.4
1000-1499	10	9	0.9
1500-2499	3	3	0.3
$\geqslant$ 2500	4	3	0.3
TOTAL	1085	951	

SOURCE: Business Monitors Census of Production, PA 417-1, Department of Industry Business Statistics Office, HMSO, London, 1979.

(a) The sum of the figures for the size groups exceed the total for the industry because some enterprises control establishments in more than one size group.

The East Midland's industry is a much larger user of the synthetic yarns produced by the major textiles groups. In view of the fact that the East Midlands hosiery and knitwear industry forms such a large market for the products of man-made fibre and the man-made fibre producing plants require to be operating at near or full capacity to be economical, the fibre producers sought to guarantee their markets. Hence, during the 1960's a period of vertical forward integration resulted, as a consequence of the financial difficulties the knitwear industry experienced during this period (see Chapter 2), as the man-made fibre groups sought to safeguard their future demand. The yarn manufacturing groups rationalized the industry acquiring some of the larger companies, eg. Wolsey became a Courtaulds subsidiary, Byfords a subsidiary of Coats Paton, and forming medium sized companies into groups, eg. the Herbert L Driver group, controlling a number of medium sized firms, itself being a part of Coats Paton.

1.3 Fashion

A distinct, non-quantifiable, characteristic which the knitting industry, particularly the knitted outerwear sector, possesses in common with other divisions of the clothing and textiles trade is that of fashion. The knitwear industry is a fashion orientated consumer industry, therefore the role of the consumer requires emphasis, since it is public acceptance of the product which will ultimately determine whether a company or industry is successful or not. Societal and environmental changes have had a considerable influence upon the demand for knitted products in general (compared to woven products). The growth in demand for easy-care garments coupled with the increased choice of man-made fibres during the post-war period has benefitted both man-made fibres and knitting.[7] Until the 1974 oil price rise, it has been argued that the production costs of knitted fabrics were lower than those of woven cloths. This resulted from a combination of a fall in synthetic fibre prices and the higher productivity of the knitting industry. The resultant lower cost of production of knitted cloth has probably been quite influential in the competition between the two methods of fabric production.

The trends in modern living towards more central heating and private transport, as well as the move towards more casual dress and freedom in fashion have also been to the advantage of knitted garments. The importance of fashion to the knitwear industry is quite considerable, as the quotations below illustrate:

"Fashion and the unremitting effort that is necessary in the knitting industry to stimulate sales with consumer desirable novelty and at the same time achieve profitable volume within acceptable cost parameters is both the salvation and the external bane of manufacturers." [8]

"The volatile nature of fashion and the fact that it is necessary to predict and thereafter to back those predictions with hard cash ... naturally makes for more than the usual number of failures in an industry. Axiomatically fashion is continually a seductive El Dorado which in a similarly disproportionate number of instances is actually achieved." [9]

The satisfaction of consumer preferences is paramount to the survival of individual enterprises within the knitwear industry. Companies operating in a fashion industry are particularly vulnerable, not only to the consequences of a business downturn, but also to the repercussions of failing to exploit a fashion trend. The ability/opportunity to dissipate risk through a product portfolio is therefore a valuable asset. Smaller firms often seek the 'El Dorado' mentioned in (9) with only limited product ranges, thus errors in judgement with regard to future market trends may prove fatal. Larger firms with more diversified product mixes are more likely to be able to compensate for such eventualities.

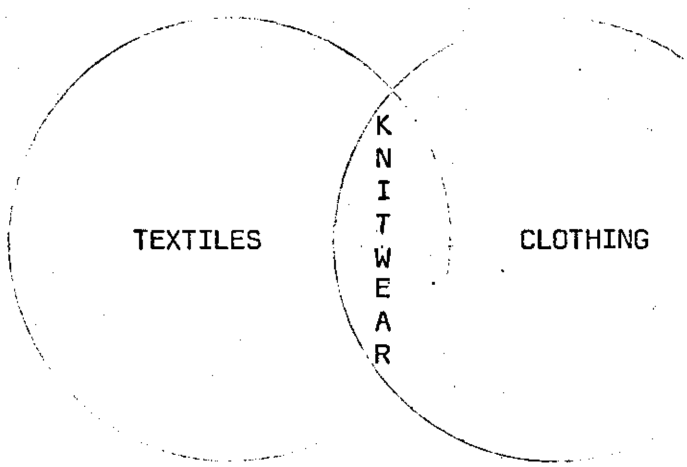
1.4 Economic Importance of the Knitting Industry

A large segment of the East Midlands is not currently receiving Government regional aid, notably Leicestershire, which accounts for an estimated 30% of the entire UK output of knitted products.[10] Within the East Midlands region the knitwear industry, defined in its wider sense, is a major employer, particularly of female labour.[11] (see page 2). As it is such an important employer in the region the social effects of a decline in the industry would be a major slump in the economy of the East Midlands, especially when one considers the geographical location of the manufacturing establishments. Many are in small villages where the only source of employment in manufacturing industry may be firms producing knitted products.

In addition to those employed directly in the knitting industry the effects upon those engaged in the ancillary industries has to be taken into account. An infrastructure of dyeing, finishing, label producing and packaging industries virtually totally reliant upon the continued prosperity of the East Midlands knitting industry exist. Thus the secondary effects of a decline in the knitwear industry would reinforce the downturn in the regional economy.

The importance of the knitting industrys contribution to the "textile chain" is out of proportion with its size, in terms of employment and value of output. The knitting industry as a whole lies in the overlap between the textiles and the clothing sectors (see Diagram 2). As it is an industry in which both fabrics and complete garments are produced it is an amalgm of textiles (fabrics) and clothing (outerwear, lingerie).

DIAGRAM 2



The highly capital intensive textile and chemical industries[f] are heavily dependent upon the continuing success/survival of the British knitwear industry. With other countries also developing textiles and man-made fibre industries there would be little opportunity for the British fibre producers to find markets through exporting, given the volume of their production and the world over-capacity in synthetic fibre producing plant,[12] if the knitwear industry ceased to function as a market outlet. The British knitwear industry is also a major customer of the British textile machinery industry, which is experiencing severe foreign competition from in particular Italy and West Germany.[13]

Nationally a decline in the knitwear industry would have a significant effect upon the economy. Although the industry has a deficit on its external trade, largely with the countries of the Far East, it is still an import saver. In 1977 it supplied over £800 million (1977 prices) worth of knitted products to the domestic market. The industry also exported £250 million worth of products (1977 prices), and the knitwear industry's export performance is improving.[14] Thus at national level it can be seen the knitwear industry has an important role to play through employment, links with related industries, import-saving and exporting.

NOTES

(a) See definition of size on page 29.

(b) The rationale for the study of the knitted outerwear sector and a classification of the products termed knitted outerwear are given on pages 1 - 2.

(c) The region specified as the East Midlands is the area covered by the East Midlands Economic Planning Council (see Figure 1, page 3).

(d) For details of the Sector Working Partys export objective see pages 25 - 26.

(e) A sizeable knitting industry exists in Northern Ireland employing approximately 5,000 and a smaller, craft knitting, industry is growing in Mid-Wales.

(f) See pages 4 - 5.

CHAPTER 2

BACKGROUND TO THE STUDY

2.1 Profitability

A feature which the knitwear industry has in common with other sectors of the textile and clothing industry is low profitability. Traditionally the average level of profitability in the knitwear industry has been below that for manufacturing industry. The industry's problems vis a vis profitability have been noted by the official bodies with special responsibilities for the knitwear industry. The Economic Assessment to 1972[15] published in 1970, using as a data base the 1968 annual returns of 100 companies, gave the median profitability ratio (defined as profit as a percentage of total assets) to be 9½%, or ½% below the average for all manufacturing industry and reflected that the knitwear industry was not to be immune from the long term decline in profitability of British manufacturing industry predicting a median level of profitability of 6½% to 7½% by 1970/1.[a] The report also warned that a minimum rate of return on total assets of 7% was, in its opinion, necessary to ensure the long term viability of the industry.

The Hosiery and Knitwear Economic Development Committee (EDC) conducted a detailed investigation into the profitability of the industry.[16] It examined a number of the knitwear industry's characteristics that may influence profitability; ownership, size and product categories. The report of the EDC concluded that independent companies are less profitable and smaller, on average, than both subsidiary and holding companies.

A partial explanation of the variation in profitability between companies of differing legal status and size was sought in the greater management expertise, potentially available to larger companies due to their greater resources and ability to attract talented personnel. However, the influence of size upon profitability is small, the study reported a correlation coefficient of 0.10, existed between the two variables.

TABLE 2

THE RELATIONSHIP BETWEEN THE ALL GOODS RPI AND THE CLOTHING AND FOOTWEAR RPI

	Retail Price Index (All Goods)	Annual Rate of Price Increase	Retail Price Index Clothing and Footwear	Annual Rate of Price Increase
1968	125.0		113.4	
		6.8		4.3
1969	131.8		117.7	
		8.4		6.1
1970	140.2		123.8	
		13.2		8.4
1971	153.4		132.2	
		10.9		9.6
1972	164.3		141.8	
		15.1		13.3
1973	179.4		155.1	
		28.9		27.2
1974	208.2		182.3	
		26.3		16.3
1974*Jan.15th	191.8=108.5		109.4	
1975	134.8		125.7	
		22.3		13.7
1976	157.1		139.4	
		24.9		18.0
1977	182.0		157.4	
		15.1		13.6
1978	197.1		171.0	

* INDEX BASE YEAR IS CHANGED TO 1st JANUARY, 1974

(Source: Annual Abstract of Statistics, 1980, HMSO, London 1980)
TABLE 18.1, p.456

The late 1960's and the 1970's (period since 1968) has seen the annual rate of price increase rise from less than 5% to double figures, peaking in 1973 at 28%. Table 2 illustrates that the Retail Price Index (all goods) has risen more rapidly than the Footwear and Clothing Index. The companies in the knitwear industry have, possibly, experienced a more rapid rise in costs than the average rise in costs as a consequence of its reliance upon chemical based yarns as a basic raw material.[b]

Comprehensive financial data regarding the knitting industries are not compiled, however the Inter Company Comparisons Limited annually publish financial information relating to 60 leading firms in the hosiery and knitwear industry. It must be stressed that the 60 leading companies studied by ICC are in general amongst the largest in the industry; are therefore likely to be multi-plant enterprises and have a large product portfolio and hence are able to maintain their level of profitability. The ICC Study[17] showed that the profitability of the companies in their sample had not kept pace with inflation, only two achieved profitability ratios exceeding the rate of price increase during the period examined, 1972/3 to 1974/5. Although many of the companies made monetary profits (ie. did not make monetary losses) in real terms they made losses.

2.2 Factors Affecting Profits

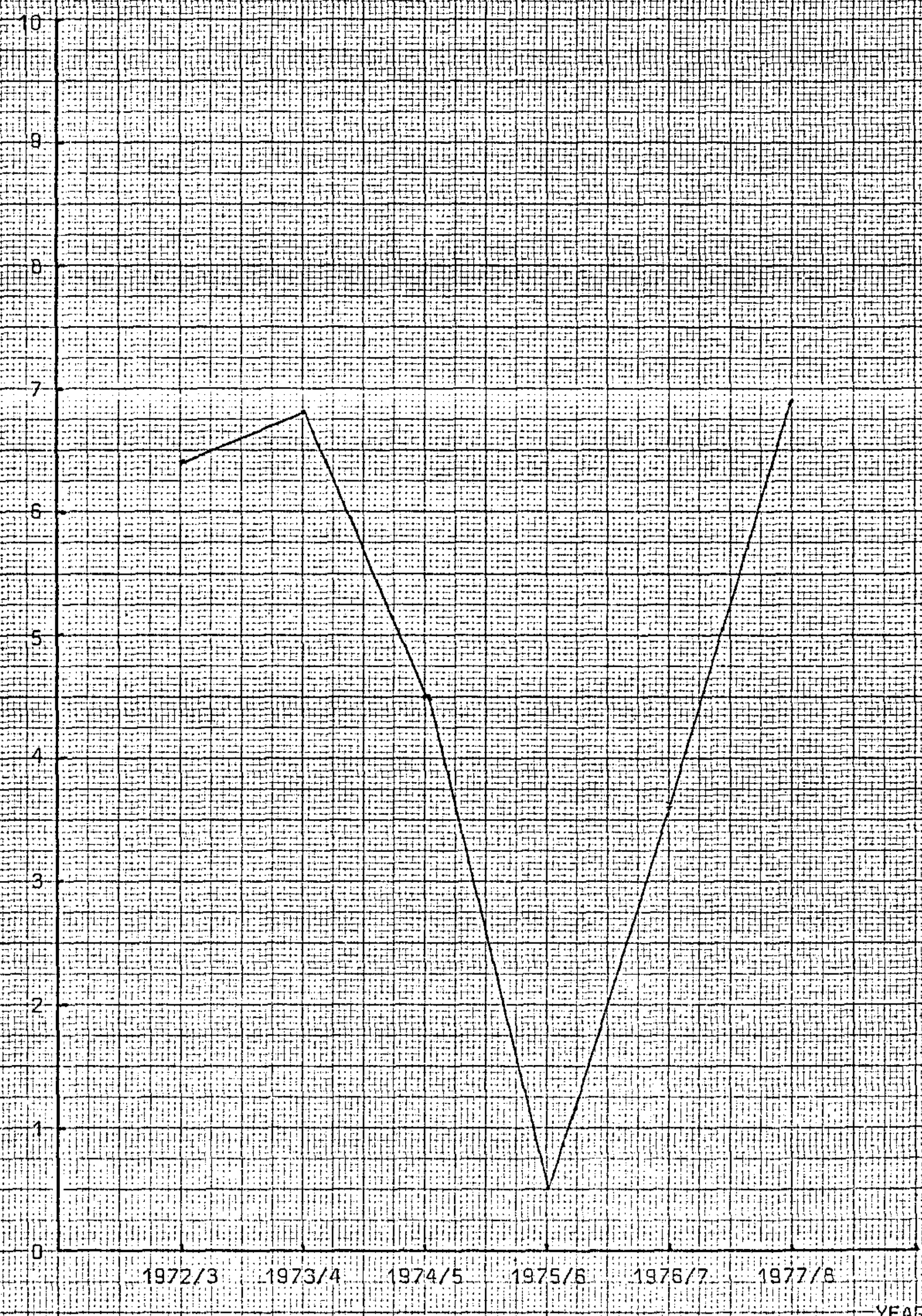
The key determinants of profitability are the profit margin (profits as a proportion of turnover) and asset turnover. It has been argued that in the knitwear industry that profit margin has a more marked effect on profitability than asset turnover. And as illustrated in Diagram 3 profit margins in the industry have been under pressure during the past decade. However, the data publicly available, upon which Diagram 3 is based, is only for the ICC leading 60 companies and they may not be representative of the entire hosiery and knitwear industry.

Profitability is a function not only of cost (ie. inflation and cost of factors of production) but also of price, and price in turn is, in part at least, affected by demand for the products. The 1960's saw the rise in popularity of knitted products and allied to this the growth of the knitwear industry attracting entrepreneurial talent due to the low cost of entry.

DIAGRAM 3

% Profit Margin, ($\frac{\Pi}{TO}$ %)

SOURCE: ICC BUSINESS RATIO REPORTS
KNITWEAR AND HOSIERY, 1975 and 1978



2.2.1 Import Penetration

The most striking feature of the late 1960's, early 1970's in the market for knitted products has been the increased level of import penetration, largely of products from cheap cost Far Eastern sources (see pages 17-18). It has been argued that the price competitiveness of the imports from these countries has acted as a constraint on price increases by domestic manufacturers, and therefore had an adverse effect upon profits.[18] Demand for knitwear (knitted outerwear) grew from 12 million dozen to 14 million dozen[19] during the 1970's but the growth in the market has been met by imports, pages 17-19 consider the trade in knitwear in greater detail.

2.2.2 Productivity and Employment

The British knitwear industry has an extremely favourable productivity record, in comparison to other sectors of the British manufacturing industry. The average rate of productivity growth between 1963 and 1976 for the hosiery and knitwear industry was 3.7% per annum.[20] However, the rise in productivity has had its costs; faced by low or even zero growth in the real demand for knitted products as low cost imports absorbed the real growth in domestic knitwear demand, excess productive capacity built up and this led to a contraction of the industry. Employment in the industry has fallen from 136,000 (1970) to 118,000 (1979)[c] and during the 1970's the liquidity problems of the industry which during the 1960's had been alleviated by the financial involvement of the large textiles groups (see pages 4-5) still plagued the industry. During 1974-1976 a combination of events, domestic (the Price Commissions control of price increases), and international, (rapid oil price rises) led to high rates of inflation, rising stocks during a period of economic recession and general pressure on the liquidity of companies.[21] This crisis was overcome by resorting to reduced levels of capital expenditure, destocking and tighter credit control[22] (the contribution of the last measure was only marginal). Table 3 illustrates the extent of the cuts in capital expenditure and stock holding that occurred, in British manufacturing industry.

Low profitability and the threat from low cost imports are two factors

TABLE 3

RELATIONSHIP BETWEEN CAPITAL EXPENDITURE AND STOCKS 1972-1975

	Value of Physical Increase in stocks and work-in-progress at current prices (£ million) All Industries	Gross fixed investment in manufacturing industry			
		Plant and Machinery		New Buildings and Works	
		% change on year earlier	CBI Intentions Inquiry Balance	% change on year earlier	CBI Intentions* Inquiry Balance
1972	(+) 17	(-) 14%		(-) 14%	
1973	(+) 967	(+) 8%		(+) 5%	
1974	(+) 1082	(+) 12%		(+) 12%	
1974 1st Qtr	(-) 391	(+) 12%	(-) 3%	(+) 23%	(-) 15%
2nd Qtr	(+) 620	(+) 16%	(+) 2%	(+) 15%	(-) 10%
3rd Qtr	(+) 748	(+) 6%	(-) 6%	(+) 2%	(-) 20%
4th Qtr	(+) 105	(+) 15%	(-) 33%	(+) 10%	(-) 39%
1975 1st Qtr	(-) 655	(-) 4%	(-) 41%	(-) 1%	(-) 47%
2nd Qtr	(-) 403	(-) 9%	(-) 27%	(-) 8%	(-) 42%
3rd Qtr	(-) 242	(-) 16%	(-) 24%	(-) 14%	(-) 39%
4th Qtr			(-) 15%		(-) 31%

* Percentage of firms expecting to authorise more in next 12 months less percentage to authorise less.

(Source: Monthly Digest of Statistics and Economis Trends)

(Taken from: Sizer, J. "1976: Survival Still the Name of the Game", Knitting International, March 1976, pp.40-2) that have contributed to the relatively low level of capital investment by the Hosiery and Knitwear Industry.

2.3 Finance

In common with the reported difficulties faced by small firms generally, the small enterprises sector of the knitting industry experience problems obtaining long term finance from financial institutions and therefore have to fund their capital expenditure with retained profits and short-term finance. As the small firms sector forms a large proportion of the total industry (85%)[d] its low level of investment reduces the aggregate capital expenditure of the industry, particularly in periods of economic downturn.

Although overdraft facilities with the leading banks are well established and often used to provide working capital by knitwear companies, the banks and other financial institutions are generally reluctant to extend long term credit facilities to small knitwear manufacturers. The financial institutions find it difficult to evaluate the precise financial position and trading prospects of such firms. In many instances the enterprises are recent entrants to the industry and are therefore not able to provide evidence of financial stability on the basis of historic financial results. This is compounded by the companies having little collateral (factory premises are often leased and the value of their capital plant is relatively low in comparison with capital equipment values in other industries)[24] plus their involvement in a high risk fashion industry.[25]

Financial institutions appraise critically all of these factors and

"*... it must be remembered that any banker ... will consider working funds available only where a satisfactory return can be made without taking an unacceptable level of risk. There will unavoidably be types of transactions for which finance is difficult ... to obtain within the banking system because of the risk factor.*"[26]

2.4 The International Competitive Position of the Knitting Industry

A variable that has undergone a substantial change and contributed to the risk/uncertainty in the knitwear industry is competition. The past two decades have witnessed a dramatic shift in textiles/clothing industries (of which the knitting industry is a segment) patterns of manufacture and direction of trade.[27] Between 1963 and 1974 the total world production of clothing doubled.[e] The growth in output has been most rapid in the State trading countries[f] and the developing nations with growth rates over this period of 171% and 141% respectively. The industrialised countries[g] recorded an increase in production of 53%. These developments have important implications for the European Economic Community (EEC) which is the world's largest clothing producer, accounting for 16.5% of world production and for Britian which has (in terms of employment) the largest knitting industry in the EEC.[28]

2.4.1 Low Cost Sources

The growth of the clothing and textiles industries in the less developed countries (Ldc's) has arisen as a consequence of a number of interrelated factors, three of the most important of which it may be argued are:

(a) the importance of the textiles/clothing industries in the early stages of industrialisation;

(b) the post war trend towards free trade; and

(c) the economic theory of international trade.

A characteristic common to virtually[h] all components of the group of industries collectively known as the textiles industry is that they are one of the few resource-based or labour intensive manufacturing industries in which small production units can flourish and for which a domestic demand already exists in the developing countries themselves.[29] For many developing nations this relatively low technology labour intensive industry is the starting point of their manufacturing base and textiles/clothing exports assume a crucial role in their foreign exchange earning capacity.[30] As the textiles industries are regarded as the advent of the industrial revolution in these countries artifical barriers to their exports would, it is argued, impede their economic development, a fact recognised by the Lomé Convention (1975)[31] and the initial MFA (1974). In the textiles/clothing industries the cost of labour remains the major component in value added and wages in developing countries in some cases are 10% of those in the UK.[32]

2.4.2 Effects of Competition

The collective disruption created by the rapid growth of textiles/clothing industries in the less developed countries and their exports of low cost manufactures to the high wage (relatively) developed countries has led to social and economic problems, exacerbated by the low level of economic activity (since 1968) with few alternative employment opportunities, particularly for a predominantly female labour force with consequential severely limited mobility.[33] The trade adjustment problem has traditionally been presented as arising from a conflict between long run gains and short term costs. The gains come from trade liberalisation, the diffuse and unquantifiable benefits generally believed to flow from international specialisation according to comparative advantage,[i] economies of scale and the diffusion of technical[j] knowledge through trade. On the other hand are the more concentrated and quantifiable costs to groups of workers harmed in the process of industrial change.[34]

2.4.3 The GATT Multifibre Arrangement

In an attempt to facilitate an orderly trade, adjustment in textile regulations were agreed in the Multi Fibre Arrangement (MFA) which came into force on 1 January 1974. The basic objectives of the MFA are:

"To achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textiles products, whilst at the same time ensuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries."[k]

However, although in theory the initial MFA was a determined attempt to implement an orderly and equitable adjustment procedure to the textiles industry, principally to promote the economic and social development of devloping countries, it failed in practice due to external factors. Uneven growth and rates of industrialisation coupled with a world-wide recession (resulting from the 1974 oil price rises) led to this failure. Rising imports from the developing countries (mainly Hong Kong, Taiwan and South Korea, who account for 65% of all textiles and clothing exports of the developing countries)[1] into the markets of the developed countries during a period of economic recession led to disruption in these markets, particularly the EEC.

The initial MFA (1974-1978) had generally favoured a real encouragement of free trade in textiles, including imports from developing countries. As the recession deepened and the market for textiles/clothing in the developed countries began to contract, producers in these countries complained that imports, in particular 'low cost' imports, were growing while their own share of the market was shrinking or at least stagnating. This led to pressure on national governments (and extra-national bodies, ie. the EEC Commission) in the developed countries to bring in import restraints when the MFA was due to be renewed (1 January 1978). Thus the 'second' MFA to run from 1 January 1980 to 31 December 1982[m] sought to restrain imports by a system of bilateral agreements between the developed and developing nations which operate on the basis of definite quotas for products and a 'basket' system setting a threshold level for all products not covered by definite quotas.[35] In summary it appears that the notion of the MFA to regulate the orderly and equitable emergence of comparative advantage has been abandoned in favour of comprehensive trade protection with calls for further protective measures in MFA III.

A consequence of the quota restrictions imposed by MFA II on the exports of the developing countries (particularly the Far Eastern trio of Hong Kong, Taiwan and South Korea) to their traditional markets of Japan, the United States and the EEC is that competition in other markets where both groups compete is intensifying.[36]

BACKGROUND TO THE STUDY NOTES

(a) See Hosiery and Knitwear EDC "Economic Assessment to 1972" op.cit. p.15.

(b) Many of the fibres used by the knitting industry are synthetic, long chain polymers such as nylon, polyester and acrylic composed of polyamides, dihydric alcohol and terephthalic acid and acrylonitriles, respectively.

(c) This fall in employment follows a decade of stability in the industry's labour force.

(d) Small firms as defined by the Bolton Report (Report of the Committee of Inquiry on Small Firms, November 1971, Cmnd.4811) as manufacturing companies with up to 200 employees.

(e) See Styles, D. op.cit. For more up to date statistics on patterns of world textiles (including knitwear) production and trade see Cable, V., "World Textile Trade, and Production" EIU Special Report No.63, Economist Intelligence Unit, London 1979.

(f) Although this term is not defined in (27), it is believed to refer to the COMECON countries.

(g) "Industrialised countries" is also not defined in (27), it is believed to refer to the EEC, North America, Japan and Australasia.

(h) An exception to this are the capital intensive continuous filament fibre production plants.

(i) This is based upon the Ricardian theory of international trade (comparative advantage) for a more detailed explanation of the theory see Soderston, B. "International Economics", Papermac, London, 1975.

(j) This is the theory put forward by Posner, M.V. "International Trade and Technical Change", Oxford Economic Papers, 1961, pp.323-341.

(k) Article 1 of the Multi Fibre Arrangement, 1974

(l) See note (e)

(m) Except for agreements with Pakistan, Egypt, Hungary and Poland, all the MFA agreements are five years 1 January 1978 to 31 December 1982. The above mentioned countries have 4 year agreements.

CHAPTER 3

THE BRITISH KNITWEAR INDUSTRY'S EXPORT PERFORMANCE AND THE SECTOR WORKING PARTY EXPORT OBJECTIVE

3.1 Export Performance

The 1971 overseas trade statistics revealed that the British knitted outerwear market had, for the first time, become a net importer (£975,000) and since then the deficit has grown to £229,907,000 in 1979 (see Table 4). Contributory factors to the growing trade imbalance, it may be argued, have been the virtually fifteen-fold increase in imports of knitted outerwear into Britain since 1970 from £28.5 million[38] to £423 million[39] (1979). In the same time period British exports of knitted outerwear have recorded an approximately six-fold increase (£32.5 million in 1970 to £193 million in 1979). As the trade statistics are in absolute terms they do not reflect the effects of the significant fall in the sterling exchange rate following the 1971 decision to allow sterling to float. The downward float (particularly 1973-1976) adversely affected Britain's terms of trade. Although the British knitting industry's exports have failed to keep pace with imports, as a proportion of its total sales, they have risen from 13% in 1975 to over 25% of total sales of knitted products in 1977.

3.2 The Knitting Industry Sector Working Party

In November 1975 the Labour Government launched its Industrial Strategy.[41] The Industrial Strategy, it was hoped, would lead to a coherent and positive approach to Britain's industrial problems.[42] It was envisaged that the Strategy would help solve the country's economic problems through Sector Working Parties (SWP) in 40 selected industries 'key' to the nation's future prosperity. Such an SWP was established for the Knitting Industry. The establishment of the Knitting Industry SWP received a cautious welcome.

"It is difficult to know whether or not the hosiery and knitwear industry should feel flattered that it is one of the 40 sectors of the UK industry chosen under the Government's new industrial strategy, as holding the key

TABLE 4

THE OVERSEAS TRADE OF THE BRITISH KNITTED OUTERWEAR INDUSTRY

Year	Imports (£'000)	Exports (£'000)	Balance of Trade: Knitted Outerwear (£'000)
1970	28,494	32,557	+ 4,063
1971	37,535	36,560	- 975
1972	52,740	39.750	- 12,290
1973	75,979	50,115	- 25,864
1974	87,005	58,067	- 28,938
1975	115,620	60,569	- 55,051
1976	162,791	103,515	- 59,276
1977	181,141	153,539	- 27,602
1978	338,538	165,925	- 172,613
1979	423,056	193,149	- 229,907

(SOURCE: U N Yearbook of International Trade Statistics 1972/3-6, Department of Economic and Social Affairs, Statistics Office, U N New York, 1974, 1977.H M Customs and Excise Statistical Office for years 1977 - 1979).

NOTE: As the differing sources of overseas trade data vary in their definitions of knitted outerwear the Statistics may not be directly comparable but they do convey the magnitude of the relative changes in imports and exports of knitted outerwear.

to future prosperity. Certainly it is nice to know that we appear to be in division two, which seems to be those sectors worthy of support and salvation as opposed, presumably to those which must survive and prosper at all costs and those which might tacitly be regarded as expendable."[43]

The scenario facing the Knitting Industry SWP on its creation was one of an industry being squeezed in the jaws of a vice between a recession in its domestic market reducing demand and rising import penetration. In July 1976 the Knitting Industry SWP published its first progress report and identified competition from cheap imports (particularly from the Far East) as in,

"... its view of the single most important factor determining the future of the main sectors of the industry." [44]

It went on to say the industry,

"... is looking to the Government through the Industrial Strategy to create the right climate for recovery and expansion." [45]

In the period immediately preceding the establishment of the SWP employment in the industry had fallen from 132,400 in 1974 to a nadir of 112,900 in December 1975, this fall in employment followed a decade of stability in the industry's labour force. Low levels of profitability allied with a general shortfall in business confidence had resulted in capital expenditure falling.[a]

In order to "create the right climate for recovery and expansion" measures were taken to raise employment, profitability and growth in the industry. In 1977 the Multi Fibre Arrangement (MFA) was renegotiated in an attempt to reduce the disruption in the knitting industries of the developed countries resulting from high levels of imports from developing countries and investment capital was made available through the Finance for Industry Act 1972. These actions in conjunction with the macro-economic policy of the Government (controlling of inflation, allowing a downward float of the sterling exchange rate) helped to establish a more favourable economic environment for UK knitwear manufacturers.

3.2.1 Policy Alternatives for the Knitting Industry

Despite these measures the total output and sales of the domestic industry have remained fairly static, in real terms, at 14 million dozens. Employment has recovered from its December 1975 low point (112,900) and is fluctuating about the 120,000 mark, currently standing at approximately 118,000.[b] Forecasting little or no real growth in domestic knitwear demand in the medium term (1975 - 1980), the Knitting Industry SWP in its 1978 Progress Report formulated a strategy of raising the industry's profits and increasing employment by improving the industry's export performance. On the basis of knowledge of the situation of the industry, gleaned from a literature survey and interviews with commentators on the industry, it is argued that the SWP had three alternative industrial strategies to choose from:

(a) Following a policy of controlled contraction of the industry until it eventually disappeared or remained but in a substantially reduced form. However this alternative may be politically, socially and economically unacceptable.

(b) Formulating a strategy to raise the industry's share of the domestic market. Although protection via the MFA is now an established fact (and calls for greater levels of protection have been made[c]) in the textiles industry, at least until 1982, it is only possible to reduce the rates of future market penetration by the low cost suppliers and British labour costs in a labour intensive industry are much higher than those in competing developing countries. So this too was not perhaps an attractive strategy alternative.

(c) To increase the market for this industry by expanding exporting. This alternative fitted in well with the national industrial strategy to increase the exports of manufacturing industry, and had the additional justification (!) that UK exports are not commensurate with its relative use of resources in the EEC Knitting Industry.

3.2.2 The Export Objective

In its 1978 Progress Report the Knitting Industry SWP outlined its key objectives.

"The home market share objective is to hold imports from developed countries to their 1976 share of the market (6.3%). The export market share objective developed by the SWP and its Export Sub-Group is to achieve a 20% share of total EEC exports to twelve designated Western European markets. The markets concerned are the EEC less Eire, and Austria, Finland, Norway, Sweden and Switzerland." [46]

The rationale for the SWP's export objective, it is argued, is based upon two beliefs that,

(a) Britain's knitting industry's exports to Western Europe should be commensurate with its use of EEC resources; 1974 the UK knitting industry accounted for 20% of total EEC fibre consumption and 25% of the labour force engaged in the EEC knitting industries.

(b) The UK knitting industry's export effort is dissipated by supplying many markets world wide[d] and that, in line with the recommendation of the Betro Report,[48] it should concentrate its effort upon fewer markets. The SWP suggests the knitting industrys greatest medium term opportunity lies in increasing its exports to the high income countries of Western Europe (including the EEC).

The objective thus disregards markets other than the twelve designated Western European markets. These other markets, eg: Eire and North America, are however traditional export markets for UK manufacturers.

Any proposed strategy must take into account the structure of the industry. The knitwear industry is a conglomeration of small, medium and large sized firms and groups and despite their relative importance to the size of the industry small firm representation on the SWP is limited.[e] However, in its 1979 Progress Report the SWP recognises that the large body of small firms in the industry could also make a contribution to the proposed export objective.

3.3 The Small Firms Sector

The small business sector is extremely large in terms of the number of companies (1.3 million)[49] and exhibits a great diversity, hence any general definition can be considered to be inappropriate; a manufacturing firm with 200 employees may have little in common with a corner shop run by a husband and wife. The Bolton Committee of Inquiry on Small Firms, "and their report is undoubtedly the most comprehensive publication on the subject in Britain"[50] found that small firms could not be adequately defined in terms of numbers of employees, sales turnover, capital employed or any other physical measure appropriate throughout the economy. The Committee resolved this important issue by adopting a two tier definition of small firms. The economic definition distinguished small firms by three main characteristics:

(i) *"A small firm is one that has a relatively small share of its market".*

(ii) *"... an essential characteristic of a small firm is that it is managed by its owners or part-owners in a personalised way, and not through the medium of a formalised management structure".*

(iii) *"... it* (the small firm) *is also independent in the sense that it does not form part of a larger enterprise and that the owner-managers should be free from outside control in taking their principal decisions".* [51]

The second tier, the 'statistical' definition, measuring size by employment and turnover (Table 5) provided an operational definition for the Bolton Committee of Inquiry.

Any statistical definition of small firms is as the Report of the Bolton Committee admits, arbitrary, however more meaningful definitions can be obtained if small firms are viewed in their industrial/commercial context. The size of enterprises can be classified by a number of quantifiable measures as mentioned above. In the knitted outerwear industry the dynamism and volatility in demand may result in fluctuations in many variables, and thus classification on the basis of asset size is considered the most appropriate due to its potential stability over time in comparison with other variables.

TABLE 5

SMALL FIRM SECTOR AS DEFINED IN THE BOLTON REPORT

Industry	Statistical definition of small firms adopted by the Committee	Small firms as a % of all firms in the industry 1963	Proportion of total employment in small firms 1963	Average employment per small firm, 1963
	(1)	(2)	(3)	(4)
Manufacturing	200 employees or less	94%	20%	25
Retailing	turnover £50,000 p.a. or less	96%	49%	3
Wholesale trades	turnover £200,000 p.a. or less	77%	25%	7
Construction	25 employees or less	89%	33%	6
Mining/Quarrying	25 employees or less	77%	20%	11
Motor trades	turnover £100,000 p.a. or less	87%	32%	3
Miscellaneous services	turnover £50,000 p.a. or less	90%	82%	4
Road transport	5 vehicles or less	85%	36%	4
Catering	All excluding multiples and brewery-managed public houses	96%	75%	3

SOURCE: Reports on the Censuses of Production and Distribution and other official enquiries (and Research Units Estimates)

Bolton Report, op.cit. page 3

3.4 Definition of Size in the Knitted Outerwear Industry

Firms in the knitted outerwear industry range in size from those with total assets of less than £20,000 to those with total assets exceeding £80 million. Following discussions with members of, and commentators on, the knitted outerwear industry regarding the definition of a small firm in the context of the industry, small knitted outerwear manufacturers were determined to be those conforming to the economic characteristics specified by the Bolton Committee (see page 27) and having, in 1977, total assets of up to, and including, £1 million. The small firms were sub-divided into three groups:

VERY SMALL FIRMS	TOTAL ASSETS	≤ £250,000
INTERMEDIATE FIRMS		> £250,000 ≤ £500,000
SMALL FIRMS		> £500,000 ≤ £1 million

In order to facilitate the collection of data and to minimize the distorting effects of inflation, published data was collected for incorporated[f] companies for the period 1973 to 1977 (inclusive).

3.5 Research Population Compilation

To enable a detailed study of the small, independent knitted outerwear manufacturers incorporated pre-1973 operating in the East Midlands region, it was necessary to derive the population of firms conforming to the definitional requirements outlined above.[g] A list of 225 companies was compiled from information gathered from trade and official publications, the relevant sections of the Yellow Pages Commercial Directory for the Midlands region, and business directories (eg. Kompass, Kelly's Middle Market Directory). Another very valuable source of aid were the local trade associations and Chambers of Commerce, who provided detailed lists of their members, identifying their product specialisations.

Following a preliminary investigation of the firms listed as possible members of the population 47 were rejected as they violated one or more of the definitional conditions.

Thus a 'true' population of 178 firms was obtained that complied with the definitions, of which 28 were non-incorporated, (see Diagram 4).

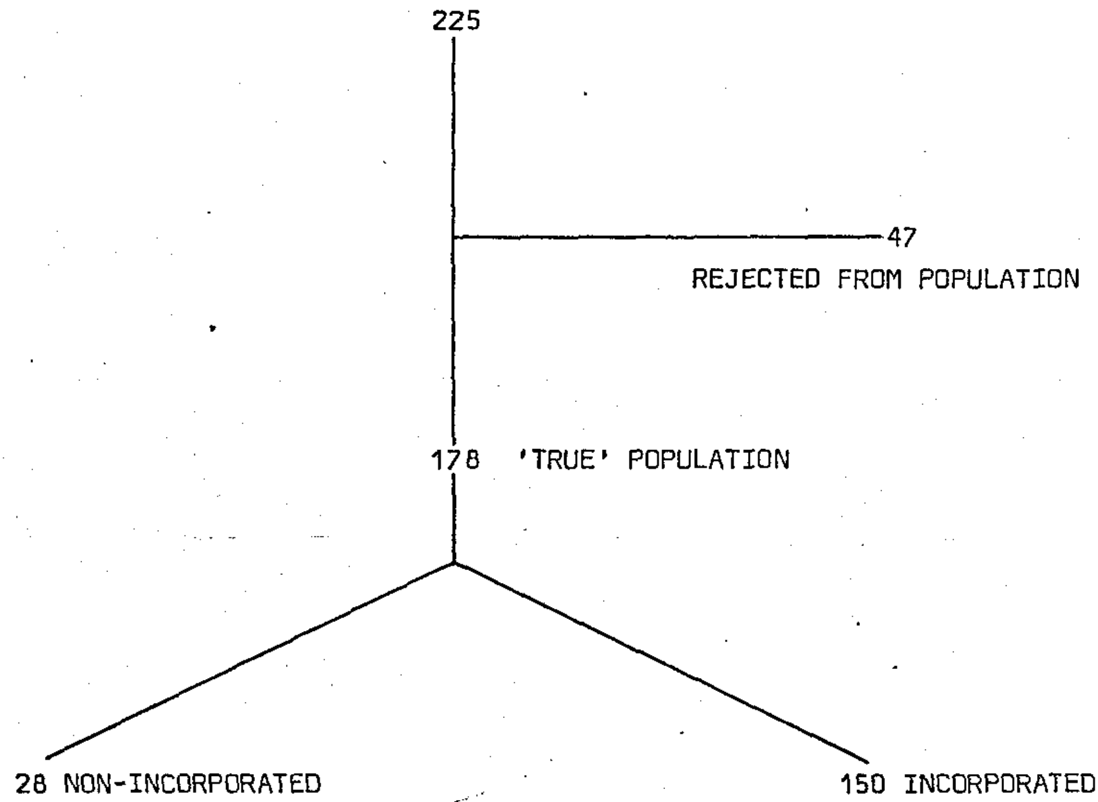


DIAGRAM 4: Derivation of Research Population

In an attempt to collect data, an examination of the published accounts of a sample of small knitted outerwear manufacturers based in the East Midlands for the period 1973-1977 (inclusive) was undertaken. In addition to the collection of basic descriptive and accounting data the policy question has been posed: could/do small knitted outerwear manufacturers export?

THE SECTOR WORKING PARTIES EXPORT OBJECTIVE - NOTES

(a) See pages 14 - 16.

(b) "Loss of 3,000 UK Jobs" Knitting News, No.130, Dec.1979, gives details of a further fall in the industry's employment.

(c) See Times, 14 November 1979, pages 5 and 16 for details of the House of Commons debate on the problems of low cost imports as an example.

(d) The UK knitting industry exports to some 150 countries, yet 84% of its total exports are to just 20 countries. See British Knitting Export Council Annual Report, 1977.

(e) The industry's representation on the SWP is predominantly from the 10 larger companies and groups in the industry. See Knitting Industry SWP (1979) op.cit. for details of membership of the Working Party.

(f) A Limited Company is a body corporate arising by Statute (the Companies Acts) having the status of a separate 'being' or person, the liability of whose members is limited according to circumstance.

(g) Comprehensive details of the entire UK knitting industry (excluding Northern Ireland) are kept by the Knitting, Lace and Net Industry Training Board, but are not publicly available.

CHAPTER 4

ANALYSIS OF THE FINANCIAL DATA

4.1 Companies House Search

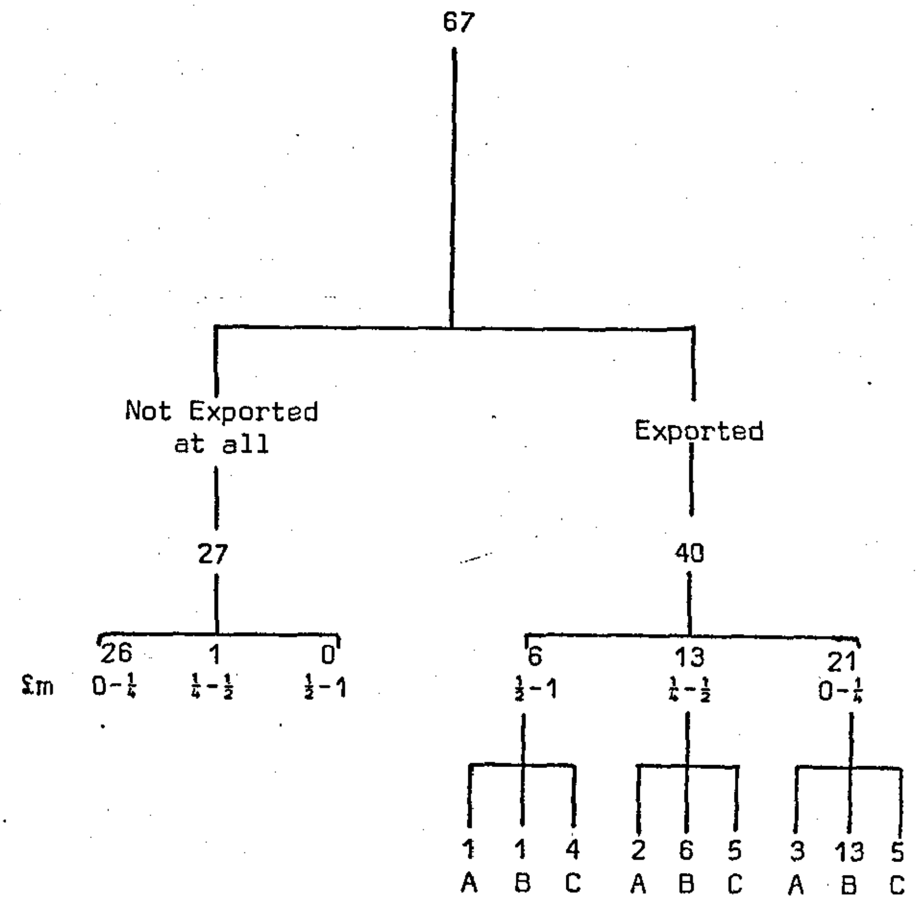
Quantitative data on the 150 incorporated companies was collected by a search of their annual returns filed at the Companies House (London). An initial search of the Register of Companies revealed that 13 companies were not traceable,[a] thus a search of the files of 137 companies was conducted. The belief that small firms do not export can be rejected on the basis of the information available in this study. During the period examined, 1973-1977, five firms in the very small firms size category (total assets $\leqslant$ £250,000) in fact exported every year, and in total 21 very small firms had exported at some time during this period. However, the sample size upon which this finding is based is limited, see Diagram 5, to the 67 companies which had filed accounts for the five years (1973-1977). The purpose of this investigation of the quantitative information was to establish whether the financial characteristics of those small knitted outerwear manufacturers who exported differ significantly from those of non-exporters.

A number of factors have combined to reduce the size of the sample to approximately 50% of the total research population of incorporated companies. Despite the 1967 Companies Acts requirement that companies should file their annual returns within fifteen months of their previous annual return considerable delays exist in the filing of accounts.[b] Of the 67 companies only 35 give details of turnover for each of the five years (see Table 6). This number of firms would give a sample favouring non-exporters,[c] thus not allowing valid comparison between exporting and non-exporting firms. It was decided, therefore, to facilitate statistical analysis, to use the data provided by all those companies which have filed accounts for each of the five years.

The figures in Table 6 refer to the details of exporting activity by these firms given in Diagram 5, (eg. the 14 companies that export every year, in the period studied, refer to the sub-group of exporters (c) in Diagram 5.)

DIAGRAM 5

FREQUENCY OF EXPORTING 1973-1977 BY SAMPLE OF SMALL KNITTED OUTERWEAR MANUFACTURERS BY ASSET SIZE CATEGORY



A = Exported in only one year between 1973-1977

B = Exported in more than one year but not every year

C = Exported in every year

TABLE 6

NUMBER OF FIRMS PROVIDING FINANCIAL DATA FOR PERIOD 1973-1977

	5 Yrs.(1973-77)	4	3	2	1	0	TOTAL
Turnover	34	10	4	4	3	11	67
Exports	14	6	4	9	7	27	67

4.2. Advantages and Disadvantages of Published Accounting Data

The use of accounts lodged at Companies House as a data source has advantages and disadvantages. The major advantage, given the limited time and resources available for the research, is that the use of existing accounts from Companies House is probably the most cost/resource effective method of obtaining detailed financial data for companies. A particular disadvantage in a study of this nature is the number of companies not providing details of their turnover, and exports. Companies that are not holding or subsidiary companies were required by Schedule 2, paragraph 13A of the 1967 Companies Act to declare their turnover if it exceeded £50,000. The turnover disclosure level was raised, following a recommendation in the Report of the Bolton Committee (Cmnd.4811, 1971), to £250,000 in the Companies (Accounts) Regulations 1971. Thus companies are only required to reveal their exporting (or non-exporting) activities if their total turnover for the financial year exceeds £250,000. As a large proportion of the companies in the research population are very small many are, therefore, not statutorily required to declare their sales.

The validity of research findings based upon data derived from published accounts are further brought into question by the limitations imposed by the very nature of company accounts and the variances in accounting conventions.

The combined effects of inflation and the relatively long life of fixed assets means that the value given in published accounts is likely to understate their present day value. As the pattern of purchases of fixed assets over the course of time, is almost inevitably, likely to differ between firms, the effects of inflation will vary. Some firms may have revalued their assets whilst others may not, these two latter factors introduce an element of non-comparability. The revaluation of fixed assets is particularly important when considering the growth in assets, for a firm that has revalued its assets will appear to have a relatively faster rate of growth of assets than one that has not.

Profits, because of differences in methods of depreciation, valuation of stock and in policies of hiring or buying assets, are not likely to be strictly comparable between companies. The profit of owner-managed firms may be depressed by the owners taking profits out of the firm in the form of directors' salaries (which represent deductions from profit) rather than dividends (which do not). Despite the source being unsatisfactory for the reasons given, it represents the most comprehensive information publicly available.

As the data available is only for a period of five years it is not substantive enough for finding trends that will lead to statistically valid conclusions. A sample of this size (67 companies) can only be used to obtain 'impressionistic' conclusions regarding the population. Further problems are caused by the fluctuations (from year to year) and variations in the data (between firms). In technical terms there is too much 'noise' in the date.

4.3 Main Findings of the Companies House Study

Taking due account of the volatility and sparsenessof the information available, a number of general conclusions can be drawn from a descriptive statistical analysis of the data. Small firms, even the very small, can and do export (see page 32) but of the 21 companies with total assets of up to £250,000 the majority (13) have exported sporadically and three exported only once during the period under examination, as illustrated in Diagram 5. The consistency of exporting activity within the sample, rises with size. In the largest total asset size category (total assets greater than £500,000 up to and including £1 million) four firms exported every year and one in all but the final year. It can thus be argued, on the basis of the information available, that exporting activity is more consistent among the larger firms.

In general the larger firms export a larger proportion of their turnover, the average percentage of turnover exporting rises monotonically. This observation must be qualified by the range of average values within each of the total asset size groups (see Table 7). As the sample in each group is small the average can be significantly influenced by a single result. Not only do variations exist in the average proportion of turnover exported between firms in each of the groups, fluctuations also exist within the proportion for each firm over time. It can tentatively be suggested that size, in terms of total assets, and the level of exporting activity are related.

TABLE 7

AVERAGE PERCENTAGE OF TOTAL TURNOVER EXPORTED, 1973-1977

Total Assets (£m)	0 - ¼	¼ - ½	½ - 1
Average $\frac{Ex}{To}$ %	6.29	12.32	18.19
Range	0.49 - 30.14	0.37 - 38.83	2.81 - 41.02
No.of Companies	21	13	6

The limitations of the data base available prevent detailed examination of the SWP's contention that,

"... *exports provide valuable, profitable business* ..." (52)

The size of the samples in the £¼m - £½m and £½m - £1m total asset size categories does not allow such a comparison between exporters and non-exporters (only one non-exporter exists in the former and none in the latter total asset size category). Analysis of the information available does not support the SWP's opinion, with regard to the profitability of exporting. The results of the descriptive statistical analysis undertaken are produced in Table 8.

TABLE 8

AVERAGE PROFITABILITY[d] AND *RETURN ON CAPITAL EMPLOYED*,[e] 1973-1977

Total Assets (£m)	0 - ¼				¼ - ½		½ - 1	
	EXPORTERS		NON-EXPORTERS					
1973	10.99	*27.4*	12.27	*37.81*	14.94	*29.66*	11.03	*16.45*
1974	6.77	*14.77*	8.29	*11.03*	16.57	*29.77*	11.36	*21.61*
1975	1.06	*(24.83)*	1.74	*10.65*	14.89	*33.29*	(3.14)	*(4.04)*
1976	1.55	*(4.24)*	10.25	*37.82*	13.09	*(4.06)*	9.2	*(15.57)*
1977	8.42	*24.2*	11.89	*27.2*	12.42	*19.76*	14.03	*24.59*
Number of Companies	21		26		14		6	

A general conclusion that can be drawn is that non-exporters are, on average, more profitable than exporters on the basis of the comparison of their relative profitabilities of firms in the very small size band (total assets of less than £250,000). In addition the analysis of profitability and the return on capital employed both indicate that in terms of these measures of success, the firms in the intermediate size category (≥ £250,000 up to £500,000) appear to be the most successful and it is also interesting to note that of the 67 firms in the sample they are the only firms to have moved across the total asset size boundaries. All fourteen firms in the ≥ £¼m < £½m size band in 1977 were in 1973 firms with total assets less than £¼m. It must again, however, be stressed that variations in the data between companies and variations over time within the results of individual firms mean that the results are very volatile and can be significantly shifted by the omission or changing of a single result. Thus all results must be examined with this qualification in mind. These were the main results that could be observed, but the general objective of the analysis of the published data was to determine if there existed any significant difference in the financial characteristics of exporting and non-exporting firms and to this end the results obtained have been inconclusive.

In common with the findings of the research reports on small firms prepared for the Wilson Committee,[f] analysis of the published accounts of the 67 knitwear manufacturers revealed that their main source of capital funds were internally generated funds retained within the business. The extreme conservatism of some of the small firms with regard to external finance is illustrated by the fact that 11 of the 67 companies used no form of loan capital. A substantial proportion (42 and 30, respectively, out of 67) used bank overdrafts and loans to fund their businesses. A smaller number (22) used hire purchase facilities. Overdraft facilties are of special importance to companies in this industry due to the cash flow problems that occur due to the seasonal aspect of their trade.

The statistics analysed reflect the financial characteristics of firms that export and those that do not export, but do not directly exhibit the underlying reasons why firms do or do not export. To go into the reasons requires a different approach - the comparison of management methods, technical development, fashion innovation, product specialisation, marketing and perhaps most importantly attitudes and motivation towards exporting. Further analysis also requires a study of individual firms since the data analysed is only that of the average performance of groups of firms classified by total asset size; each average ; even for quite small groups - hides large differences in performance between the constituent firms.

NOTES

(a) The explanation given by Companies House officials for those companies not appearing on the Companies Register was that they had most probably changed their names and had failed to notify the Registrar of Companies of this fact.

(b) Delays of up to 4 years have been noted and are not uncommon.

(c) In the sample of 67 approximately 60% are exporters but in the 35 the proportion falls to 40%.

(d) Profitability is defined as profit (before tax and interest payable) expressed as a percentage of total assets (includes freehold and leasehold property, plant, machinery, equipment, fixtures and vehicles, trade investments, goodwill, trademarks and current assets).

(e) Return on capital employed is defined as profit divided by total assets minus current liabilities.

(f) Committee to review the functioning of financial institutions, Chairman: Sir Harold Wilson.

CHAPTER 5

QUESTIONNAIRE SURVEY

5.1 Selection of Survey Sample

To facilitate an examination of the qualitative distinctions between exporters and non-exporters and to collect further data on the financial practices of the small firms a sample of the total population was selected. Attention was paid in the selection procedure, of those firms that were to be the subject of qualitative analysis, to ensure that the sample of firms reflected the composition of the research population and no bias in terms either of size (as measured by total asset size) or level of exporting activity during the period 1973 to 1977 (inclusive) was evident. The sample of companies can, therefore, be said to have been stratified in terms of both of these variables.

The method of data collection chosen was that of personal interviews based upon a structured questionnaire (reproduced in Appendix A) consisting of closed, semi-closed and open-ended questions. Due to the constraints imposed by time and cost the sample of firms was restricted to 37 of those studied in the Companies House investigation.

It was known from personal contacts within the knitwear trade in general that trade in knitted outerwear is largely seasonal with Spring and Autumn being the main selling periods of the year, [illegible]. Given these constraints on data collection outlined above, a pilot survey was conducted during the early Summer (June). The initial approach to companies, by way of an introductory letter (see Appendix B) inviting their cooperation in the research survey, was made during July, so as to schedule visits for late Summer/early Autumn (late July - early September). This represents the period of 'the lull before the storm' for the industry, the period falling between the end of the annual Summer holidays and the beginning of the Autumn selling season.

5.2 Responses to the Survey

Responses from the sample took three forms; completed questionnaires, refusals and communications from companies informing the researcher that the trading circumstances of the company had changed, so as to remove them from the research population, since its compilation[a] (see Table 9). Pilot survey returns were not included in the data analysis as the final version of the survey questionnaire was modified from the pilot questionnaire.

TABLE 9

BREAKDOWN OF SURVEY RESPONSE

Interview Survey (N = 37)		Response Summary	N	%
Questionnaires completed	23	Questionnaires completed	23	62.2
Companies having left the population	6	Response	29	78.4
Refusals	8	Refusals	8	21.6
TOTAL	37	SURVEY SAMPLE	37	100.0

The overall response rate to the survey was considered to be satisfactory, given that the research was conducted amongst small firms, the chief executives of whom are usually very busy and the timing of the interviews, immediately prior to the beginning of the important Autumn selling season. A more detailed breakdown of the response rate by total asset size category and exporting activity during the period 1973-1977 (inclusive) is given in Table 10.

The apparent homogeneity of the knitted outerwear industry's small firms sector conceals both a wide variation in the proportion of turnover represented by exports, ranging from 1½% (D_2) to over 50% (CX_5) and, as a corollary to this, a diversity in the degree of commitment to exporting amongst the sample interviewed.

TABLE 10

DETAILED ANALYSIS OF RESPONSE RATE

Total Asset Size (£m)		Number of Years Exported (1973-1977) 0	1	1 5	5	Total
0 - $\frac{1}{4}$	Responses	9	2	3	4	18
	Questionnaires completed	7	1	2	4	14
	No longer in the population	2	1	1		4
	Refusals	4		1	1	6
$\frac{1}{4}$ - $\frac{1}{2}$	Responses	1		2	4	7
	Questionnaires completed	1		2	4	7
	No longer in the population					0
	Refusals		1		1	2
$\frac{1}{2}$ - 1	Responses			1	3	4
	Questionnaire completed				2	2
	No longer in the population			1	1	2
	Refusals					0

5.3 Classification of the Companies

Analysis of the data obtained, within the framework of total asset size categorisation, was considered to be inappropriate as it is considered that size is not a determinant of the ability to export. Classification of the companies surveyed was on the basis of the following criteria:

(i) commitment to exporting defined as the performance of actions and allocation of resources, both financial and managerial (time/ personnel) to the objective of exporting; and

(ii) the export ratio, defined as the proportion of total annual turnover exported each year during the period 1973 to 1977 (inclusive), which transcends total asset size and it is felt can provide a useful framework for further study of the sample, (see Table 11). Using this division of the companies interviewed three genre of enterprise can be distinguished.

5.3.1 Non-exporters:

This group of knitted outerwear manufacturers has not exported during the period 1973-1977 (two of these companies in fact exported previous to 1973).[b] A number of companies within this group expressed an interest in the possibility of exporting but felt certain factors at present prevented them from engaging in overseas trading.

5.3.2 Dabblers:

The firms composing this group are defined as those that have exported during the period under examination (1973-1977) but their exports represent less than 20% of their total turnover. This group of manufacturers is distinguished from the final group (committed exporters) not only by the proportion exports represent in their annual turnover but also by their method of export marketing. The dabblers are, in general, 'passive' exporters - those firms that have entered the export market as a consequence of an approach by a foreign buyer. Subsequent to the receipt of the initial order from the overseas buying organisation the dabblers have not customarily sought to secure their export markets or to raise the level of their overseas trade. In the normal course of events the majority of the firms, defined as dabblers, are reliant solely upon the continuance of orders from the foreign customer(s) who have approached them. However, a small number of manufacturers within this category are presently in the process of adopting a more positive approach to exporting.[c]

5.3.3. Committed Exporters:

All of these companies have an export ratio in excess of 20%. The committed exporters are differentiated from the dabblers by their attitude to exporting and their method of export marketing. In contrast to the majority of the dabblers, who are passive exporters, the committed exporters pursue an active policy of export growth. These companies have used representatives (both UK and overseas based) to raise their exports. These firms, having made a policy decision to export, have systematically developed their overseas markets.

Analysis of the three groups of firms: non-exporters ($Nx_1, Nx_2 \ldots Nx_7$); Dabblers ($D_1, D_2 \ldots D_{10}$) and committed exporters ($Cx_1 \ldots Cx_6$) reveals a number of contrasts and similarities between the three genre of small knitted outerwear manufacturers as well as within each sub-division. The companies, although similar, are by no means homogeneous within the categories, therefore discussion of the groups will be illustrated by reference to the characteristics of specific companies.

Table 11

BREAKDOWN OF SAMPLE IN TERMS OF ASSET SIZE AND COMMITMENT TO EXPORT

		Total Assets (£m)			Total
		$0 - \frac{1}{4}$	$\frac{1}{4} - \frac{1}{2}$	$\frac{1}{2} - 1$	
Non-exporters	(Nx)	6	1		7
Dabblers	(D)	7	2	1	10
Committed exporters	(Cx)	1	4	1	6
					23

5.4 Similarities and Dissimilarities between the Groups of Companies

5.4.1 Product

The knitwear industry, and in particular the knitted outerwear sector, is a fashion orientated consumer industry, hence the role of the consumer must be emphasised, since it is public acceptance that will ultimately determine whether a product is successful or not. The Knitting Industry SWP has directed the attention of knitted product manufacturers to the markets of Western Europe but considers that the export efforts of British manufacturers are hindered by a lack of design and styling tailored to continental tastes.[53] The companies surveyed produce a wide range of knitted garments differentiated in terms of fashion and style content, spread over the age/sex spectrum. The product category matrix model (Figure 6) illustrates this point. All of the twenty-three companies visited used the cut and sew method of knitted outerwear manufacture and a variety of machinery types. One company (Dx_2) used the warp knit process (one of less than ten warp knitters manufacturing knitted outerwear in Britain), the remaining 22 firms produced weft knit garments[(d)].

Overall no significant difference between the products manufactured by the three groups appears to exist. The majority of companies (20) regarded their products as 'mass market goods' in terms of price and style/fashion content. Those companies that did not regard their garments as 'mass market' were all of the opinion that they manufactured 'up market' goods. The companies represented each category (Nx_1, D_7 and Cx_1).

Knitted outerwear garments are not standardised and, therefore, although companies, in their opinion, may regard their products as 'fashionable' this has multifarious facets and the style may be the only affinity two garments, from different manufacturers, may possess. The range of garments manufactured by the enterprises under examination ranged from boucle jumpers to knitted dresses, suits and co-ordinates, yet all of the garments were categorised as 'mass market fashion'. The versatility and dexterity of the industry is one of its major assets and, on the evidence from this limited sample, it would appear that product is not a major factor preventing companies (non-exporters) from exporting or raising their export ratio (dabblers), for market niches exist for British knitwear produced to both domestic (UK) market specifications and subject to modification for European markets. The incidence of unsolicited order from buyers from abroad and agents representing overseas buying organisations, discussed in Chapter 6, suggests that a potential export market exists that is not being exploited directly by UK manufacturers.

5.4.2 Channels of Distribution

Another area in which a marked degree of similarity exists between the

FIGURE 6

PRODUCT CATEGORY MATRIX *

*Many of the companies manufacture a range of products that did not all fit into any one of the divisions below, therefore the number of items mentioned add up to more than the number of companies (23)

PROGRESSION

Price Level		Utility	Conservative Mature Look	Conservative Casual Look	Casual Look Fashion	Smart/Dressey Look Fashion	Exclusive Look Fashion	Progressive Look Fashion	Total
	Nx				1				
UP	D		1						
MARKET	Cx						1		
	Total		1		1		1		3
	Nx	1		3	3			2	
MASS	D		1	2	6	1	1	2	
MARKET	Cx		1	1	2	1		2	
	Total	1	2	6	11	2	1	6	29
	Nx								
DOWN	D								
MARKET	Cx								
	Total								0
	TOTAL	1	3	6	12	2	2	6	32

practices of all three genre of enterprise (non-exporters, dabblers and committed exporters) is in the channels of distribution used for their products in the domestic (UK) market. Fourteen of the 23 companies distribute their goods through wholesalers, three each through retail multiples and department stores, the remainder through single unit retailers and mail order houses. The differing types of buying organisations supplied by the companies reflects the traditional British distribution method for the various types of knitted products manufactured by the knitting industry. An example of this is that Cx_2, D_3, and Nx_5 all manufacture jumpers and cardigans, and the 'traditional' channel of distribution for such goods is through the wholesale sector. However, Cx_4, D_6 and Nx_4 are all manufacturers of knitted dresses, suits and co-ordinates and hence normally reach the consumer through departmental stores, and retailers (both single unit and multiple chains). Therefore it is postulated that products manufactured, and the distribution method used, by the companies within the domestic (UK) market are not factors constraining the abilities of the dabblers and non-exporters to export.

5.4.3 Overseas Markets

Consideration of the export markets served by the dabblers and committed exporters does exhibit a significant variation. The dabblers predominatly (8 of the 10) supply markets that the Knitting Industry SWP has designated 'easy' to enter (Eire, Sweden and Norway), only two dabblers presently export to Germany, Switzerland and Finland, markets regarded by the SWP as 'hard' to enter.[54] In contrast to the dabblers all of the committed exporters (6) trade with the 'hard' to enter markets (France, Belgium, Holland and those mentioned above).

5.4.4 Finance

The analysis of the published accounts of the companies participating in this survey provided a skeletal profile of the financial characteristics of the firms. In an attempt to add some substance to the framework a section was added to the questionnaire (see Appendix A) relating to the financial conditions of the companies. The objective was to establish whether small firms faced problems with respect to finance and whether this affected their exporting activities. The evidence from this limited survey suggests that the availability of, and the terms on which, finance is available are less of a problem to the enterprises than the overall economic environment in which they have to operate. Only two of the 23 companies regarded a shortage of external finance or the terms demanded by lenders as factors constraining their business activities. On the other hand 20 of the 23 considered general economic factors (eg: inflation, competition from imports, low levels of demand and low profitability) had been the main difficulties facing their businesses. Profitability is of great importance to the respondents as internally generated funds are the main source of finance capital, thus general market conditions, taxation (four of the 20) and skilled staff employment problems (eight of the 20) were cited as the main constraints to the activities of the companies.

The characteristics of the three groups of companies discussed in this chapter do not differ significantly, nor do they offer any explanation for the existence of exporters and non-exporters, or of the variation in the proportion of turnover exported. On the basis of the research findings it is argued that use of the concept of commitment to exporting can be a major factor in explaining the export performance of the group of small manufacturers of knitted outerwear under examination.

NOTES - QUESTIONNAIRE SURVEY

(a) One company has ceased trading; 5 have, since the compilation of the research population, ceased manufacturing knitted outerwear, 2 having become Hosiery Manufacturers, 1 of underwear and 2 solely commission knitters. The latter five companies reflect the alternative to market diversification (ie. exporting), product diversification into other sectors of the knitting industry.

(b) Non-exporters NX_3 and NX_4.

(c) Dabblers D_8 and D_9.

(d) See page 2 for technical details of the differing modes of knitted product manufacture.

CHAPTER 6

THE CONCEPTUAL FRAMEWORK

6.1.1 Derivation of the Framework

The first part of this chapter describes, in theoretical terms, the export process in the context of the conceptual model (Figure 7) and the Export/Commitment Matrix (Figure 8). The second part analyses the characteristics of the constituents of each cell.

Detailed analysis of the questionnaire responses precipitated the derivation of the conceptual structure elucidated in Figures 7 and 8. The relative collocation of the enterprises within the matrix (Figure 8) was determined on the basis of the criteria outlined on page 42. The matrix is a two-dimensional model with which it is hoped to illustrate a multi-variate (hence multi-dimensional) process. Thus the conceptualisation must be viewed with this qualification in mind. The use of dashed lines to segment the matrix is intended to convey the idea of flexibility in the cell structure of the matrix for the divisions are not clearly defined in real life, due to the multi-faceted nature of such activities (exporting and decision-making).

6.1.2 The Export Model

The operational classification of the three genre of company (non-exporters, dabblers, and committed exporters) in terms of their export ratios ($\frac{\text{EXPORTS}}{\text{TURNOVER}}$ %) as with all statistical definitions is arbitrary. The concept of commitment forms an integral part of the export framework represented by the relationship

$$X_t = f(R, C, X_{t-n}, S, B) \qquad \text{(i)}$$

where

X_t = present export activity

R = resources of the company, including its products, which is a function of size

C = commitment

X_{t-n} = previous export experience of the company

S = stimuli to export

B = barriers that the management perceives to initiating exporting

$$S = g(U_1\ U_2, F) \qquad \text{(ii)}$$

U_1 = unsolicited enquiries

U_2 = unsolicited orders

F = facilitators eg.aid/assistance, both statutory, ie. BOTB, and non-statutory, ie. the BKEC that management perceives as supporting/encouraging their move into export markets

$$C = \emptyset(A;M;P;E_t;E^*;O_c;O_r;\pi,\mu) \qquad \text{(iii)}$$

A = attitude

M = motivation

P = perception

E_t = economic situation at present

E^* = expectations of the future economic situation

O_c = objectives of the company

O_r = objectives of the respondent

π = profitability

μ - residual

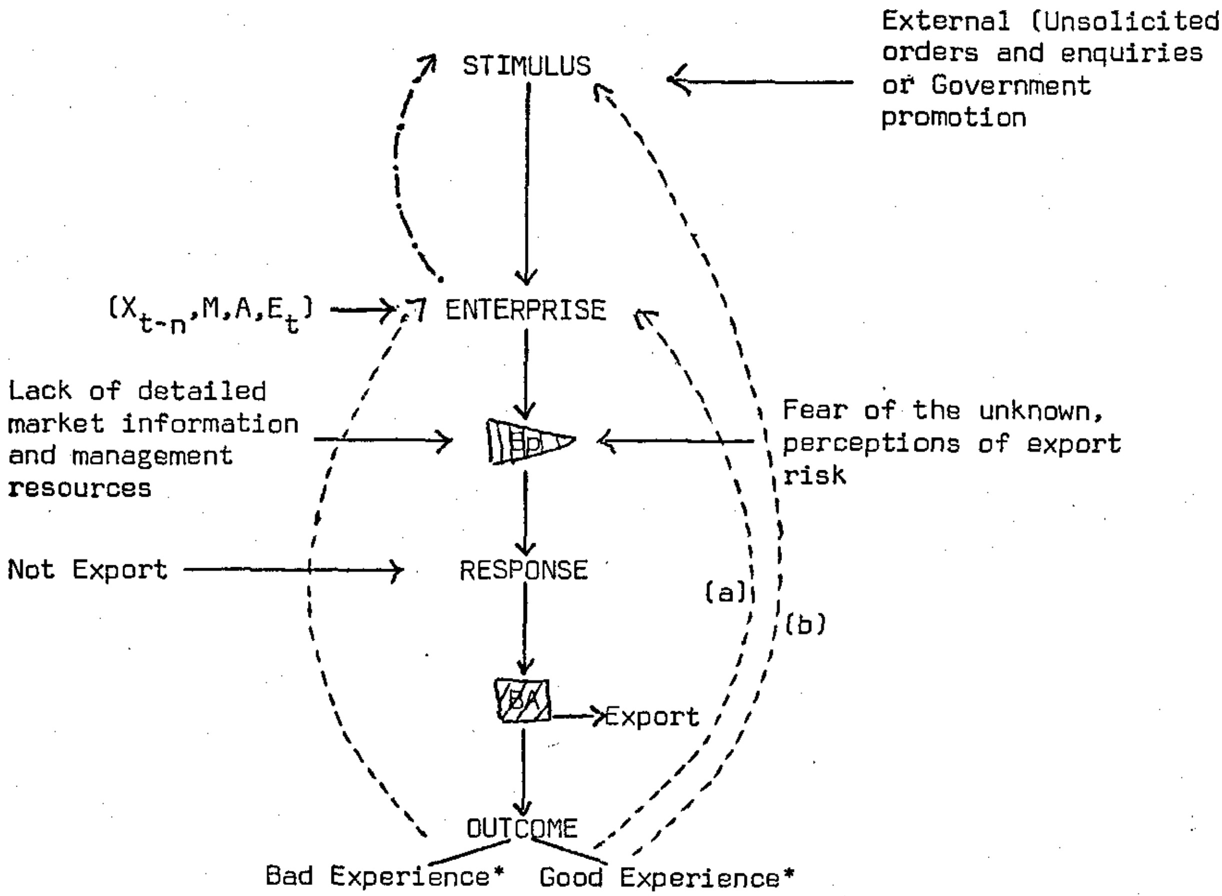
The variables identified in relationship (i) are not independent. For example relationships (ii) and (iii) are intercorrelated, corporate objectives (O_c) and economic factors (E_t and E^*) may act as a stimulus to export activity, (S). Further, in the case of the owner manager O_c may (and often will) be equal to O_r.

The export framework is displayed diagramatically in Figure 7 and, in terms of a multi-stage model, explains the export process inferred from the research survey's findings.

6.2 Incorporation of the Company Classification into the Model

The export model is dynamic to the extent that it incorporates feedback loops and interactions involving a number of variables. It attempts to interrelate the variables into a flow without explaining how they relate functionally (ie: the causal relationships are not defined) nor specifying the relationships between the variables. The use of a multi-stage export process[a] allows the model to overcome its deficiency as a

FIGURE 7



 = Actual Barriers to Exporting

 = Psychological Barrier

-·-·-·-·-·→ = Internal Stimuli

——————→ = Direct Influences

- - - - - - - - → = Feedback from X_t, if a good outcome/experience it produces a positive stimulus from both customers (a) and the enterprise (b)

Experience* = γ(e) where e = expectations and may relate to profitability, payment, delivery. If problems arise with X_t the enterprise may regard it as a bad experience one-period explanation of the export process and to allow the integration of the classification of companies (NX,D and CX) outlined on pages 43-44.

(1) STAGE	(2) DESCRIPTION OF ACTIVITIES	(3) TYPE OF COMPANY	(4) CELL
ONE	The firm is unwilling to export; it would not even fill an unsolicited order - because of apathy, dislike of foreign activities, busy doing other things	NON-EXPORTER (NX)	B
TWO	The firm fills unsolicited orders, but does not explore the feasibility of itself seeking overseas markets	DABBLERS (D)	D
THREE	The firm explores the feasibility of exporting whilst completing unsolicited orders	DABBLERS	D
FOUR	The firm exports experimentally to one or a few markets	DABBLERS	C
FIVE	The firm is an experienced exporter to these markets	COMMITTED EXPORTER	E
SIX	The firm explores the possibilities of exploring to additional markets	COMMITTED EXPORTER (CX)	E

The cells referred to in column (4) correspond to those in the Export/ Commitment Matrix (Figure 8)

6.3 Movement Within the Conceptual Framework

On the basis of the research findings to date, it appears that two 'routes' exist which companies may follow if they are to achieve exports in excess of 20%. as a proportion of total turnover. As stated earlier the use of an export ratio of 20% as a benchmark to divide the exporters into dabblers and committed exporters is empirically derived. The

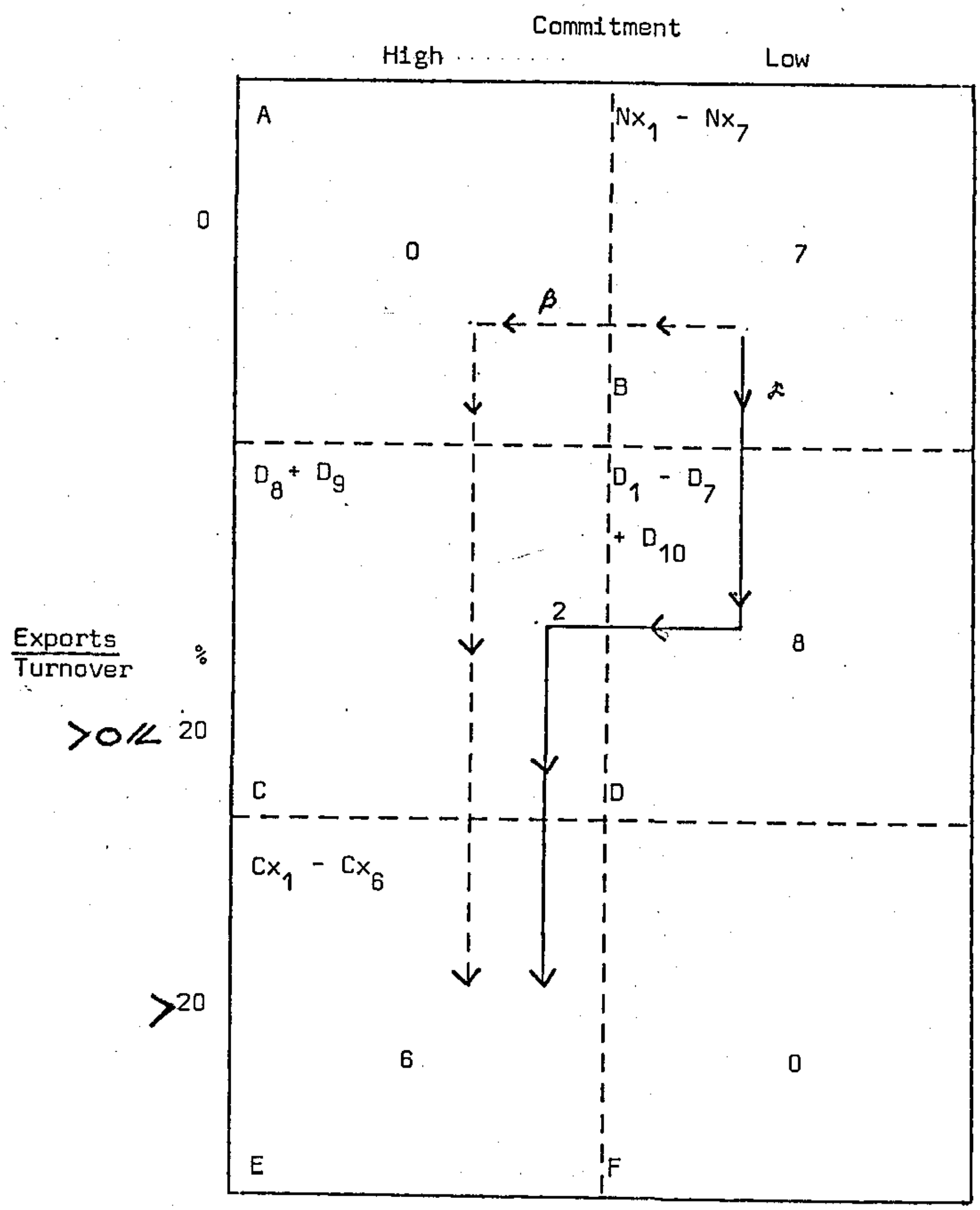


FIGURE 8:

THE EXPORT/COMMITMENT MATRIX

criticism could be made that some (if not all the firms) labelled 'dabblers' may have satiated their desire to export and therefore may not wish to raise their exports to over 20% of their total annual turnover. However, all of the companies (including the non-exporters) expressed a desire to raise their present level of exports. Two companies, CX_3 and CX_5, exporting 22% and 55% respectively of their turnover, felt that to increase their exports would expose them to too great a degree of risk in export markets.

6.3.1 Route α

The stages in a company's movement from CELL B Stages 1 and 2 (a situation of low commitment to exporting and no exports undertaken) to CELL E Stage 6 (high commitment to exporting and an export ratio in excess of 20%) are briefly outlined below. The hypothetical companies (x) and (y) are used to illustrate the process.

STAGE 1 CELL B to CELL D:

Companies (x) and (y) are at a point in time, t_0, non-exporters with a low commitment to exporting. At time t_1 both companies have productive capacity which is not being fully utilised. The companies are approached by an overseas buyer wishing to purchase British knitwear, in other words (x) and (y) are the subject of an unsolicited request to export. The overseas buyer then places an order with each of the companies (x and y), which both companies accept. The companies (x and y), it is suggested, only have to make slight adjustments to the products they manufacture for sale in the domestic market (UK) to make them acceptable for export markets. The adjustments may only be of labelling (to comply with the legal requirements abroad) and the colour combinations of the products (to accommodate national preferences).

At time t_2 companies (x) and (y) (having produced the garments ordered) send the products out of the country (Britain). Both of the companies are now exporters. It is assumed that the export orders despatched by (x) and (y) in neither case represent more than 20% of their respective total annual turnovers, hence both companies have moved into CELL D, being dabblers, (a low commitment to exporting and exports less than 20% of annual sales).

STAGE 2 CELL D to CELL C

At time t_2 company x is again approached by the overseas buyer who places a further unsolicited order with the company, which again company x accepts and at time t_3 company x exports the order to the buyer's organisation abroad. Company x is therefore remaining a dabbler. (It is again assumed that the order placed by the overseas buying organisation does not exceed 20% of company x's total annual turnover. If it did, company x would move into CELL F).

Company y, in the period between t_1 and t_2 having, it is argued, 'broken through' the psychological barrier that exporting is difficult and only for larger firms, regards exporting as an activity which is beneficial.[b] Thus motivated, company y raises its commitment to exporting and at t_2 engages in actions (ie: conducts market research, appoints overseas agents), reflecting the rise in the level of export commitment. Company y thus moves into CELL C.

STAGE 3 CELL C to CELL E

It is postulated that the positive actions of company y at time t_2 reflecting a rise in its commitment to exporting, will realise benefits (in terms of a rise in its export ratio). Company y has, therefore, moved from a 'passive' exporting mode, relying upon non-controllable unsolicited orders to a 'positive' mode and is soliciting orders, ie: seeking export orders. The company, y, will devote further resources (financial and managerial time/personnel) to its export activities at time t_3 and, it is argued, will experience a rise in its export ratio beyond 20% and, therefore, the company will move into CELL E at time t_4.

6.3.2 <u>Route β</u>

Route β, it is suggested, is an alternative route which companies may follow in order to move from Cell B to Cell E. Using the hypothetical companies (x + y) again for illustrative purposes, the process can be described. However, the brief survey undertaken did not reveal any company that appeared to be following this route.

STAGE 1 CELL B to CELL A

At time t_0 both companies x and y have spare productive capacity and are non-exporters with a low commitment to exporting. It is assumed that due to adverse economic conditions prevailing in the domestic economy (UK) at time t_0 both companies (x + y) are experiencing falling demand (short term) for their products and reduced returns on capital employed in their respective enterprises. The managements of both x and y form expectations that the poor trading conditions prevailing at time t_0 will extend into the longer term (for the purposes of this exposition long term is assumed to be the period t_0 to t_{10}). Given the situation at t_0 and the expectations of companies x and y both companies regard their future survival as threatened. It is argued that both companies, motivated by a desire for survival, seek alternative markets for their products (a differnt procedure for ensuring company survival is to change the company's products (ie: product diversification); this alternative is recognised but not considered as part of this analysis). Companies x + y, therefore, consider overseas markets as potential outlets for their respective products. The threat to company survival induces, it is suggested, a rise in the commitment to export of companies x and y. Both companies conduct market research analysis of potential export markets at time t_1. Thus companies x and y move from Cell B (nonexporters with a low commitment to exporting) into Cell A (non-exporters with a high commitment to exporting).

STAGE 2 - CELL A to CELL C

At time t_2 the investment of resources (financial and management personnel) to analyse a potential export market at t_1 realises returns. Both companies x and y engage overseas agents to market their products abroad and obtain orders for their respective products. At time t_3 x and y despatch the orders (assumed to be less than 20% of their respective annual turnover) to overseas customers. Hence both companies (x and Y) become exporters.

Company x continues to use overseas agents during t_4, and strengthens its ties with its export customers (gained during t_2 - t_3) by sending managerial staff to make sales visits to them. However, although company x raises its export ratio it does not rise above 20% of its total annual turnover. Both company x and company y recognise the advantages of exporting (not just financial, but also of potential for long term company growth and survival).

STAGE 3 CELL C to CELL E

Company y motivated, it is argued, by a desire for company growth and greater market security appoints a UK based company representative to market its product(s) abroad and also conducts overseas market research visits and develops a market entry campaign in new overseas markets in an attempt to increase its exports. The actions are undertaken during time t_4. It is postulated that as a consequence of these actions in time t_5 the exports of company y will exceed 20% of its total annual turnover and therefore company y will move into Cell E from Cell C.

Both companies (x + y) have adopted a positive method of exporting, they have undertaken market research, appointed agents and have solicited export orders. Company x, despite the advantages of exporting, is satisfied to obtain less than 20% of its total annual sales from abroad, hence although its degree of commitment to exporting is relatively high its export ratio does not exceed 20%.

6.4 Analysis by Cell

There is no company in Cell A of the matrix because the analysis presented is based upon historical data and the survey revealed no company (a non-exporter by definition) that had not exported during the period 1973-1977 (inclusive) despite a commitment to exporting; bearing in mind that commitment is defined in terms of actions taken and resources devoted to the objective of exporting. Thus, to date, the research has discovered no company(s) that wished to export and committed resources to the attainment of the objective, but did not achieve any exports.

Although all of the companies in Cell B (7 non-exporters) have expressed a desire to export, their commitment (as defined) is low. None of the companies has undertaken any significant actions or committed resources, including management time, to exporting. Five of the seven companies believe exporting is important to them and express an interest in exporting, but state lack of management time and specific market information as factors constraining their wish to develop exports. The companies are unsure of how to export and fear committing resources to what they perceive as being (in comparison with their domestic trade) a high risk venture. Four of the companies visited revealed that they had, during the period 1973 to 1977 (inclusive), been approached by foreign buyers seeking British knitwear but had forgone the chance to do business with these buyers. The reasons why the companies concerned did not export were not examined. However, it is speculated that due to favourable trading conditions prevailing, at the time of the request to export, within the domestic (UK) market the non-exporters declined this opportunity to export.

The products manufactured by the seven non-exporters are not an apparent constraints on exporting, as is shown by the Product Category Matrix on page 46. A factor that may hinder the efforts of these companies to export is that exporting may require a different mix of marketing skills to those required in the domestic market. Within the UK market most knitted outerwear manufacturers distribute their goods through wholesalers; this distribution system places a greater emphasis on the selling aspect of marketing than, for example, distribution of garments via single unit retailers where, it may be argued, packaging and presentation of product is more important.

Two companies, (D_8 and D_9), exist in Cell C. Their respective export ratios ($\frac{\text{Export}}{\text{Turnover}}$%) are those of dabblers (up to and including 20%); however, their commitment (as defined) is high. Both employ UK based company representatives to market their products in overseas markets and D_8 has increased the size of its management team by recruiting an export manager. In common with D_9, D_8 conducts regular visits to overseas markets, combining visits to existing customers with market research intelligence gathering. The move by companies D_8 and D_9 into Cell C (high commitment with exports less than or equal to 20% of turnover) from Cell D, has been quite recent (during the past two years) hence it has not been possible to evaluate the results of the devotion of resources (financial and managerial time/personnel) in terms of growth of exports.

Cell D contains eight dabblers who, to date, have not revealed a high level of commitment to exporting. In common with the groups of companies categorised as non-exporters and committed exporters, the dabblers display a diversity in the range of their products. The proportion of turnover exported varies widely between the eight companies, ranging from 1½% (D_2) to 18% (D_7). Four of the eight companies began exporting as a result of an approach by a foreign buying organisation or its representative. The companies in Cell D state that their level of exporting is limited by the lack of detailed market information with regard to the potential export markets and because they lack the management time, personnel and expertise to study export markets.

The six companies composing Cell E are those defined as committed exporters (ie: at Stage 6 of the export process). All of these companies have export ratios in excess of 20% and have a high level of commitment. All the companies employ agents (four UK based representatives and two overseas agents) and have staff (predominantly management) making visits to overseas markets. Hence all of this group of companies have devoted resources to exporting. Further, the six companies have, in terms of their objectives, as perceived by the researchers, achieved some exporting success (eg: in terms of market diversification and future growth potential). In response to questions 10, 24(a) and 45, examining the reasons for exporting and the perceived advantages of exporting, security, survival of the company and the potential for future growth appeared to be the main objectives of exporting, as is illustrated in the list below. The manufacturers (dabblers and committed exporters) surveyed indicated that the following (rank ordered by relative importance) were the most significant advantages resulting from export operations:

	RANKING	
	Dabblers	Committed Exporters
Diversification of Markets	1	1
Possibility of Expansion	2	2
Timing of Orders/Stabilization of Annual Sales	4	3
Volumes Sales/Lower Costs	3	4

Although the six committed exporters may be termed successful with regard to their respective export ratios they are not immune from difficulties. Four of the six committed exporters (Cell E) in common with a majority of the dabblers (5 from Cell D and both from Cell C) said that export sales are less profitable than home sales.

As with Cell A no company was discovered during the brief survey that fitted into Cell F, a company with a low commitment to exporting but an export ratio in excess of 20%. However, this category could cover a company approached by overseas buyer to sell more than 20% of its turnover to them.

The formulation of the conceptual structure presented in Figure 7 resulted from a synthesis of the aggregated questionnaire responses. As a consequence of the multi-faceted nature of business (and in particular entrepreneurial) activity a number of interrelated, secondary issues also arose from the analysis conducted.

NOTES - THE CONCEPTUAL FRAMEWORK

(a) Derived from Rodgers, E M, "Diffusion of Innovations" Free Press, New York, U S A, 1962, model of the innovation adaptation process.

(b) The benefits accruing from exporting may be diverse; and not necessarily those assumed by classical economists as the sole justification for any enterprise, profitability.

CHAPTER 7

FURTHER ISSUES

7.1 The "Wish to Export"

Six of the seven[a] companies classified as non-exporters (those companies that are members of Cell B in Figure 8) expressed a desire to export, and the dabblers (those companies constituting Cells C and D) stated that they would prefer a larger proportion of overseas sales in their total turnovers than their present division of sales.[b] As is illustrated in Table 12 a large proportion of the respondent companies (17 of the 23) considered exporting to be at least significantly important to their enterprises, and all 23 of the companies, to the knitted outerwear industry. The motivations behind these responses, the attitudes and perceptions of the companies (and as the enterprises under examination are small, defined as owner-managed, those of the chief executive(s)) are of importance, in evaluating the replies to the questionnaire.

Confronted with an unfavourable domestic market scenario; intense competition from imports,[55] a static market for knitwear (in the UK) and expectation of the general economic situation remaining poor, if not in fact deteriorating,[56] the companies consider that their survival is being threatened. The survival instinct[57] and the external pressures outlined above have 'forced' companies to regard market diversification as a policy directed towards company survival and potential growth.

7.1.1 Evaluation of the "Wish to Export"

Although the dabblers and non-exporters have enunciated an aspiration to export a significant proportion of their annual sales their degree of commitment is, as yet, not commensurate with their stated aspirations. Evaluation of the phenomenon 'wish to export' is necessary as, it is argued, the respendents may, in the particular situation of the interview (a survey of export performance and export potential) have regarded an indication of a positive attitude towards exporting as the most appropriate/acceptable response. Measurement of the 'wish to export' also raises problems. Due to the constraints imposed by the size of the

TABLE 12

IMPORTANCE OF EXPORTING TO THEIR RESPECTIVE COMPANIES AND TO THE KNITTED OUTERWEAR INDUSTRY IN THE OPINION OF THE RESPONDENTS

	NON EXPORTERS		DABBLERS		COMMITTED EXPORTERS	
	Company	Industry	Company	Industry	Company	Industry
Unimportant	1		2			
Not Significant			1		1	
Significant	4	1	4	2	2	2
Highly Significant	1	3		3	1	1
Crucial		3	3	5	2	3
	6	7	10	10	6	6

sample (only 23 companies in total), time and cost of resources, methods of appraising the level of commitment are not felicitous. Ranking the companies on an Index of Commitment (based upon actions[c]) would result in a division of companies into still smaller sub-groups, and possibly even on an individual enterprise basis. Possibly the most appropriate method of assessing the desire to export is by the use of an attitudinal survey. Use of this research tool, however, presents a number of difficulties, principally the cost in terms of time and resources. Additionally, it must be borne in mind that attitudes are often ephemeral and subject to considerable influence from perhaps temporary circumstances.[d]

7.2 Motivations to Export

The factors underlying the entry of the majority of the dabblers into the export market and the expressed desire to export by the non-exporters are quite alike. They (the 7 non-exporters and ten dabblers) considered that the following factors (rank ordered by relative importance) were the most significant in leading them to begin exporting (dabblers) and to have considered exporting (non-exporters).

<table>
<tr><th></th><th colspan="2">RANKING</th></tr>
<tr><th></th><th>Non-exporters</th><th>Dabblers</th></tr>
<tr><td>Approach by Foreign Buyer, Agent, etc.</td><td>1</td><td>1</td></tr>
<tr><td>Company Interest in Exporting</td><td rowspan="2">2</td><td>2</td></tr>
<tr><td>Marketing Strategy of Expansion</td><td>3</td></tr>
<tr><td>Surplus Productive Capacity</td><td rowspan="3">4</td><td rowspan="3">4</td></tr>
<tr><td>Market Diversification</td></tr>
<tr><td>Decline in Home Sales</td></tr>
</table>

The motivation to export stated by the companies (dabblers and non-exporters) can be described as reactive, both groups of companies felt the approach by a foreign buyer stimulated their interest in exporting, and in the case of the dabblers, led them to begin exporting. Pressure to diversify sales into other markets caused by declining domestic sales and the under utilisation of productive capacity also featured as factors influencing the desire to export. The defensive factors may have induced the relative ascendancy of the more positive reasons for wishing to begin exporting (company interest in exporting and 'marketing strategy of expansion').

In contrast to the non-exporters and dabblers the factors which led the committed exporters to begin exporting, ranked by relative importance below, may be considered more positive, ie: the companies sought to export as part of a strategic policy for the company and not as a result of pressures, such as declining domestic demand leading to a 'forced' reappraisal of company policy.

	RANKING
Company interest in exporting	1
Marketing Strategy of expansion	2
Recognition of marketing opportunity	3
Market diversification	4
Decline in home sales	5
Approach by foreign buyer, agent, etc	5

The phrase 'company interest in exporting' is a synonym for the wish of the management (often, the chief executive) to export which may be based upon expectation of real or perceived advantages of exporting or upon past experiences of exporting acquired with another company. The other factors suggested as reasons for beginning to export are self explanatory. However, although 'market diversification' is ranked relatively low as a reason for the initial move into exporting, its importance as an advantage arising from exporting is paramount.

7.3 Advantages of Exporting

Twelve of the 16 exporting firms interviewed (ten dabblers and six committed exporters) considered that the main advantage of exporting was the corporate security it offered through the diversification of markets; a further two firms regarded the possibility for expansion (through supplying a larger potential market) as the greatest benefit from supplying overseas markets. Two respondents (both dabblers), however, stated that exporting provided no benefits for their companies. Only one of the 23 companies in the questionnaire survey sample (a non-exporter) felt that exporting would be more profitable than sales in the domestic (UK) market. The responses therefore indicated that the expectations of financial benefits (at least short term) was not, it is argued, a major motivating factor underlying the interest of the respective firms to exporting[e] but rather the belief that overseas trade offered, through market diversification, a strategy for company survival.[f]

Although the non-exporters and dabblers express a desire to, and have some motivation to export they appear, to date, to have (in terms of the operational definition given on page 50) shown little apparent commitment to promoting their sales overseas. Both groups of companies state a number of factors prevent them from entering the export market.

7.4 Constraints to Exporting

The two circumstances cited most as constraints to exporting were:

a) lack of management time and personnel; and
b) paucity of specific market information relating to potential overseas markets.

These constraints are not mutually exclusive. As a consequence of a lack of managerial time and personnel (as well as possible deficiency in relevant skills) the small firms examined are not able to acquire the detailed market information they require to appraise a potential overseas market and plan a market entry strategy. The main constraint to the exporters increasing the volume of their exports, in their opinion, were in order of importance, lack of market information, and of managerial staff respectively. Perceived constraints of importance to the dabblers were lack of productive capacity and the 'right' product, whereas the committed exporters mentioned real factors (eg: cash flow problems, the risk of over-exposure in export markets and the increased value of sterling) as factors constraining their ability to raise their exports.

The relative ranking orders of all three groups of firms (non-exporters, dabblers and committed exporters) are similar, those of the dabblers and the non-exporters bearing a particularly close affinity.

7.4.1 Lack of Managerial Resources and Sources of Information

	NX	D	CX
Lack of market information	1	1	1
Lack of managerial manpower	3	2	2
Lack of productive capacity	4	3	
Wrong product	2	4	
Problems of cash flow		5	=3
Risk of over exposure in Export markets			=3
Increased value of sterling			=3
Finance } Export Documentation }	5		

Although many of the companies (nine of the 16 exporters) surveyed had availed themselves of the services of the British Overseas Trade Board (BOTB), a body which many observers would argue is a provider of overseas market information for companies requiring it, the companies did not consider it adequately fulfilled their requirements. The respondents generally felt the services of the BOTB to be too general. They stated that the market information they required had to be more detailed, of a commercial (relating to buying organisations, and market structures), non-commercial (eg: methods of physical distribution) and an industry specific nature (on such matters as consumer preferences in knitted outerwear in terms of styles, yarns and weight of garments). As the companies have insufficient management time (and/or personnel) they, it is argued, are not able to undertake the extensive market research necessary to collect the industry specific intelligence necessary to locate potential overseas markets for their products.

7.4.2 Planning Time Horizons and the Psychological Barrier

Market developments in the recent past (since 1968) have posed serious problems. The scenario confronting British knitwear companies has changed from one of a bouyant domestic market for knitted garments (indeed a sellers' market) to one in which import penetration and economic recession have produced uncertainty as to the validity of maintaining a British knitwear industry.[g] A psychological atmosphere, therefore, exists in which the risk of diversification into overseas markets are perceived[h] as being high, particularly in view of the length of the investment payback period (perhaps five years[i]). In a situation in which insecurity pervades, ventures into the relatively unknown direction of exporting (which represents a fundemental change in company policy) are treated with caution. If these small manufacturers of knitted outerwear (non-exporters and dabblers) are to increase their exports and make a significant contribution to the SWP export objective (see pages 25/6) theiranxieties with regard to exporting need to be allayed or their attitudes changed. These companies may need to be convinced that export sales, if properly planned, bear no greater risk than domestic sales, or that the risks are worth taking.

A factor that induces uncertainty amongst the companies visited regarding ventures into overseas markets is that related to the strategic planning time horizons. It is argued that the benefits of exporting (market diversification and the resultant security) only accrue after a relatively long time period, perhaps up to approximately five years. The committed exporters accept this constraint in order to ensure the survival and potential long term growth of their companies. The non-exporters and dabblers, however, appear to seek a return upon their investments (both financial and management resources) after a much shorter period.

7.4.3 Need for Self Help

Clearly if small knitted outerwear manufacturers are to be encouraged to export and therefore, as a corollary, devote resources (both financial and managerial) to this objective they have to be convinced that the longer term benefits (defined as company survival and growth potential) exist from exporting: namely, that unless the remedy prescribed above (exporting) is taken the survival of the knitwear industry in its present size and form may be in jeopardy. This diagnosis discounts the possibility of a complete ban on imports of knitted products from the non-EEC world or of a substantial increase in the level of import controls on knitted products by either the EEC or the UK unilaterally coupled with a significant upturn in the UK markets demand for knitted outerwear.

The constraints on non-exporters exporting and dabblers raising their export ratios,discussed above, have policy implications both for the knitwear industry and for Government economic policy towards the UK small firms sector in general; these policy proposals are discussed in Chapter 10. Support from the Government, whether it be general financial incentives or direct aid to exporters (ie: specific market information) may be useful and effective as a method of 'pump priming', but it is argued that it would be a mistake to assume that if such a 'pump priming' exercise is initiated it will produce a marked improvement in the export performance of the small firms manufacturing knitted outerwear. Using a medical analogy - the patient will only respond to the treatment if it has both the will to live and is willing to engage in some self-help.

7.5 Other Difficulties not Specifically Identified

The problems, both real and perceived, discussed in this chapter have been those mentioned by respondents during the questionnaire survey. However, it is felt that the companies interviewed, particularly the non-exporters and dabblers, also underestimated and failed to recognise other real problems consequential to exporting. The long credit periods, that are generally required for export sales, can cause cash flow difficulties for companies, eroding profit margins, particularly during periods of restrictive monetary and fiscal policies. Credit periods of 90 days (compared with 30 days normally in the domestic market)[j] are not uncommon. Cash flow problems may be particularly acute in a consumer orientated fashion industry such as knitted outerwear where demands are seasonal and large stocks have to be carried. A general weakness that respondents felt existed in the provision of finance by the Export Credit Guarantee Department (ECGD) was the lack of pre-shipment finance. ECGD only provides guarantees for pre-shipment finance on contracts worth £1 million or more. Such cover is available only for selected contracts with a manufacturing period of at least a year. This results in the companies experiencing cash flow difficulties in financing working capital necessary to produce export orders. The ECGD services are used by six of the exporters (dabblers and committed exporters). However, only two of the six (one dabbler and one committed exporter) avail themselves of the ECGD's export finance facilities.

A dimension of the problem of exporting mentioned by 17 of the 23 companies surveyed as a variable affecting investment decision, but not a factor affecting exports, is Government macro-economic policy. The British rate of inflation is, and may continue to be, amongst the highest in Western Europe. This, in conjunction with the appreciation of the sterling exchange rate, (a consequence of an oil-endowed economy) has made, and will continue to make British exports less price competitive abroad. Hence the dangers of over-exposure in the export market are also to be avoided.

7.6 Profitability of Exports

A possible consequence of the paucity of detailed information relating to overseas markets is in the pricing policies employed by the exporters. They were observed to predominantly price exports on a 'domestic price plus' basis rather than setting prices in line with demand (ie: 'what the market will bear'). Only one of the 16 companies engaged in exporting (D_5) described its export sales as more profitable relative to its domestic sales, a further four stated no difference in profitability between overseas and domestic sales existed. The remaining eleven exporters reported that their export sales are slightly less profitable than domestic market sales.

Knitted outerwear manufacturers operate in a price/product competitive environment, as distinct from an innovative competitive situation.[h] It was postulated that a factor adversely affecting the profitability of export sales is the degree of competition existing in overseas markets for knitted products. Although two companies (both committed exporters) felt that competitive factors contributed to the differential in profitability between home (UK) and export sales, they considered it to be secondary to problems of costing and pricing exports. Seven of the eleven exporters reporting export sales to be less profitable, ranked additional overheads attributable to exporting as the primary factor responsible for the relatively lower return on export sales. This suggests that the companies adopt a full cost as distinct from the more sophisticated, contribution costing approach. Using the full cost approach costs directly attribut ble to manufacture are being overlooked.

A fear of being uncompetitive, ie:being too expensive in overseas markets and hence losing (or failing to obtain) export trade was put forward as a reason for accepting a lower level of profitability on export sales by three companies, all dabblers. This highlights the observation that UK firms (in general) frequently underprice their products when exporting. Additional information regarding prevailing prices and pricing practices in overseas markets may remove this perceived risk of uncompetitiveness and result in exporters and potential exporters adopting demand related pricing policies.

FURTHER ISSUES - NOTES

(a) One company, Nx_2, is in the opinion of its chief executive, too small to export.

(b) Division between domestic and overseas sales.

(c) A definition of COMMITMENT is given on page 50.

(d) For example, the economic situation facing the country or the commercial position of an enterprise at a point in time.

(e) Previous studies, both in the UK and in the United States, have concluded their *short term* profit was not the motive for exporting; rather it was *long term* profitability secured through market diversification and long-term growth. See Hunt, H G, Froggatt, J D, and Howell, P J, "The Management of Export Marketing in Engineering Industries", British Journal of Marketing, Spring 1967, pp.10-13, and Cooper, R A, Hartley, K, and Harvey, C R M, "Export Performance and the Pressure of Demand", London, Allen and Unwin, 1970.

(f) This thesis is supported by a limited survey conducted in the USA by Pavord, W C, and Bogart, R G, "The Dynamics of the Decision to Export", Akron Business and Economic Review, Spring 1975, pp.6-11.

(g) See for example David, R, "British Textile Mills Facing an Uphill Struggle", Financial Times, 4 December 1979, p.24 and Millington, J T "New Patterns for a New Decade", Knitting International, Vol.87, No.1034, February 1980, pp.77-78.

(h) It has been argued that non-exporting firms perceive significantly more serious obstacles to exporting than do exporters. See for example: Tesar, G, "Empirical Study of Export Operations among Small and Medium Sized Manufacturing Firms", Doctoral Dissertation, University of Wisconsin, Madison, Wisconsin, USA, 1975.

CHAPTER 8

POLICY PROPOSALS AND INDUSTRY REACTION

A feature of this study has been the close contact maintained between the researcher, the participant companies and the industry wide bodies. The participative nature of the research provided the opportunity for the main research findings to be fed back to respondents. their opinions to be noted, and policy proposals to be formulated in conjunction with the enterprises under examination. The policy suggestions arising from this intercourse of ideas were then discussed on an industry wide basis with relevant bodies, both official and non-official.

8.1 Seminar

Following completion of the analysis of the responses to the questionnaire survey the respondent companies were invited to attend an informal seminar at the University which four accepted. The conclusions arising from the research, to date, were verified as being of relevance to small manufacturers of knitted outerwear seeking to export. A number of policy proposals designed to overcome the barriers to exporting identified were developed jointly by the researcher and the representatives of the invited companies. The suggestions are outlined below:

(i) Greater assistance should be given to small knitwear manufacturers (eg: in the form of free stand space at European Knitwear exhibitions to enable companies to make contact with overseas buyers and test the respective markets).

(ii) A more specific low cost (subsidised) market entry scheme. The scheme would be operated by experts from within the knitwear industry, who would be able to provide detailed and specific information on overseas markets. On the basis of this up-to-date information the experts would be able to advise companies on entry into the particular market(s).

(iii) A co-operative export organisation. A co-operative venture could take one of two forms:

a) It could be solely a selling organisation. The participant companies would provide the co-operative with samples of their product ranges on which the co-operative's agents would obtain orders. The orders would be given to the particular company which would then export the garments to the buyer(s) who placed the order with the agent.

b) The co-operative could be a buying and selling organisation with its own marketing, sales and design staff, and possibly even a brand name. The organisation would place orders with companies, laying down its own specifications for garments based upon the samples produced by its designers. The co-operative would then export these products to overseas markets.

8.2 Ignorance of the British Knitting Export Council Revealed by Participants

A significant, and disquieting, development at the seminar revealed that possible widespread ignorance existed amongst small manufacturers of knitted products of existing sources of advice/aid to exporters. During the discussions following the presentation of the research findings arising from the questionnaire survey mention was made of the British Knitting Export Council (BKEC). From the ensuing discussion that occurred amongst those attending the seminar, it became apparent that two of the enterprises represented had either no knowledge of the existence of the BKEC or did not know of the services and facilities it offered, this in view of the BKEC's stated role of being

"the only trade association in the (knitting) *industry concerning itself with matters affecting export trade ... This in fact has long been recognised by the Departments of Trade and Industry and other quasi-official bodies"* (58)

thus being the only body through which Government channels export aid to the knitting industry. It may be argued that potential export resources are being left untapped, particularly through ignorance of their existence and nature,

8.3 Postal Questionnaire

A number of companies which had participated in the questionnaire survey were unable to send representatives to the seminar. To elicit their opinions on both the research findings and on the alternative methods of negotiating the hurdles to exporting formulated at the seminar, a short questionnaire was sent to each company. The majority of the responses received favoured options (ii) and (i), in that order, as the most appropriate form(s) which assistance to small firms engaged in knitwear manufacture wishing to export could take. The independent/individualistic nature of the enterprises constituting the knitting industry, it is felt, mitigates against the formation of co-operative organisations, and this is reflected in the fact that only one company opted for (iii).

Copies of a Working Paper detailing the results of the two questionnaire surveys and the feedback session at the University were sent to relevant industry and extra-industry bodies.[a] The organisations were invited to comment upon (a) the main conclusions drawn from the research study and (b) the policy proposals contained therein.

8.4 Reaction from the Organisations

8.4.1 The Knitting Industries Federation (KIF)

The KIF based in Nottingham is a national organisation for the representation of the knitting industry. The researcher had, throughout the period of the study, communicated with its Director, Mr John Harrison, engaging in fruitful discussions giving a valuable insight into the industry as a whole. Mr Harrison considered that the findings of the research highlighted the lack of commitment to exporting amongst many small firms in the industry. Despite the apparent lack of support revealed by the sample of companies used in this study to the idea of a co-operative venture (of both types) the KIF is pursuing a policy directed towards the establishment of a joint marketing and selling organisation[59] (somewhat akin to policy alternative (iii) outlined on page 75). At this stage the organisation is intended to operate in an import - substitution role. The rationale for this joint venture is that demand for knitted products from the retail sector is being increasingly concentrated in large retail groups[60] placing large volume orders which individual small firms are not able to supply. The co-operative venture, if successful in the domestic (UK) market, may, it was suggested, be extended to include the export market.

8.4.2 The British Overseas Trade Board (BOTB)

In common with the KIF, the BOTB's representatives agreed with the main impressions gained from the research, but felt that the emphasis should, in their opinion, be somewhat different. The BOTB's regional office in Nottingham has on its staff several specialists dealing almost exclusively with the export efforts of knitting companies and two representatives from this section visited the University to discuss the research project. The BOTB's officials outlined the comprehensive range of services available to prospective and existing exporters, ranging from subsidised stand space[61] at leading overseas exhibitions to detailed market research reports on potential export markets.[62] Based upon their practical experience of dealing with the large numbers of small knitted outerwear manufacturers in the East Midlands, they felt that commitment to exporting was adversely affected by the psychological barrier that exporting is difficult.

The BOTB's representatives argued that no information gap existed, rather one of performance of stated intent (to export promotion) amongst the small firms sector of the knitting industry. The officials provided, as they said, somewhat crude evidence of a lack of commitment to exporting by relating that the imposition of nominal charges for their introductory services had reduced the number of enquiries by approximately 75%. They considered that this supported their thesis that when the services/information was free the management of companies, feeling a desire to export (for whatever reason), collected the free information available but their motivation to export (or explore the potentialities of exporting) being weak merely collected but did little with it. The charging for such information, although nominal (£1) discouraged many firms from even an initial exploration of the possibilities of exporting.

However, it has been noted elsewhere that small firm management is characterised by a 'fire-fighting'[63] approach. The response time of the BOTB to enquiries was viewed by some small firms interviewed as slow relative to the gap between perceived need and required action. Speed in dealing with specific enquiries is particularly important in an industry based upon rapidly changing fashions and seasonal demands. The BOTB's officials considered that their service utilising the commercial attaches in British Embassies ensured that they provided a rapid response to enquiries.

8.4.3 Other Trade Bodies

Several other trade bodies were also invited to comment upon the research and the policy proposals therewith arising. General, and extremely useful discourse, has taken place. No alternative methods of encouraging and assisting the export activities of small knitted outerwear manufacturers have been suggested but doubts as to the feasibility of those suggested on pages 74/75 have been raised.

8.5 Practical Difficulties in Implementing the Policy Alternatives

8.5.1 Free Stand Space at European Knitwear Exhibitions

The British Overseas Trade Board provides heavily subsidised (but not free)stand space at European exhibitions, ie: those held in West Germany,[63] but does not regard the argument for free stand space to have been proven. They contend, justifiably, that stand space at exhibitions like all other economic resources is finite and demand for stand space generally exceeds supply, therefore, in classical economic terms, demand and supply should be equated by the price mechanism. This argument is flawed, however, by the fact that size, and income, in the corporate sector of the British economy is not evenly distributed, hence the ability within the price-mechanism of smaller, less financially powerful companies, to attend such exhibitions is limited even though the subsidy alleviates a significant proportion of the total cost of exhibiting. Free stand space would help and encourage more firms to exhibit, it is argued. A proportion of the stand space reserved by the BOTB could be allocated, free, to small, first time exhibiting companies to offer them an opportunity to test the acceptability of their products in overseas market places.

8.5.2 A Specific Low Cost Market Entry Scheme

The multi-faceted nature of the assistance small manufacturers of knitwear appear to require to tap their export potential appears to necessitate the establishment of a knitting industry export agency. The proposed agency would be designed to be able to provide knowledge on markets, financing of exports, fashions/styles in different markets and of the buying organisations in each market. These are all details which the companies presently cannot readily acquire themselves due to a general lack of management personnel and time to locate all of these facts - all of which are necessary (but not sufficient) conditions to be fulfilled before a company can plan an export market entry strategy.

The difficulties envisaged in operationalising such a scheme are two-fold in nature:

(a) the traditional chestnut - finance; and
(b) personnel

Whether or not this information should be provided in the form of a subsidised government agency, on a purely commercial basis, or on some basis in between the two is important. Consideration has to be given to the question of the remuneration for the employees of such an agency. If the agency is to be successful it will have to recruit highly proficient members of the industry - these personnel would only be attracted by high salaries and good prospects. If the organisation is a purely commercial venture then the returns from the operation will have to be sufficient to compensate for the risk factor and the running costs of the agency. Possibly a satisfactory means of paying for the services of such an agency would be on the basis of results (raising the export level of a specific company or the industry in general). The main difficulties envisaged are for a government agency, of attracting personnel from the industry of the correct calibre and experience, and for a purely commercial organisation of compensating it for the risk involved in such a venture and its costs of operation. The optimal solution may therefore be to have a commercial organisation, partially subsidised by the government.

8.5.3 Co-operative Ventures

Co-operative ventures between groups of small firms, and combinations of small and larger sized corporate entities in export markets are well documented in the literature.[b] At the theoretical level joint ventures pooling the resources of a number of companies (from two to ∞) which individually are not sufficient to accommodate an export market entry or the 'piggy backing' of smaller firms on the greater resources (and possibly experience) of larger firms appear to be an optimal method for small enterprises to enter the export trade. However, in practice such measures, at least within the knitted outerwear industry, appear to be fraught with difficulties, essentially arising from the human traits of the executives of the industry's constituents.

Conversations with commentators on the knitwear industry revealed that previous efforts to create export co-operatives do not have a very auspicous history. Co-operatives of the first type mentioned on pages 74/5 can be of two types, the latter being the more common:

(i) the manufacturers produce similar/identical goods, ie: all produce knitted outerwear

(ii) the manufacturers grouped together produce complementary goods, ie: manufacturers of hosiery and knitted outerwear.

Difficulties arise from commercial rivalry, particularly in case (i) above, and to a lesser extent in (ii). In the latter mode of participative venture conflict may arise within the group between the selection of target markets as well as possible resentments, leading to disruption of the arrangement, if certain members of the export co-operative are benefitting from the arrangement (purely on the merits of their product(s)) whereas others are not and they may attribute this failure to obtain orders to dubious commercial practices by other members of the export group in conjunction with the agent(s) representing the co-operative.

The difficulties envisaged in the establishment of a co-operative buying and selling organisation are somewhat greater, in particular when the participating enterprises are small firms. Studies of the motivations of individuals founding small firms reveal that the desire for independence is very strong. The concept of an industry grouping within which the individual enterprise is required to manufacture garments to given specifications and price/cost, in conditions which it has little (if any) control over may appear as an anathema to the management of such firms.

The loss of virtually all control over the marketing, raw material purchase, design and costing/pricing functions of the enterprise (for orders obtained via the co-operative) may run counter to the entrepreneurial instincts of many managements, especially when it is considered that the management role may be vested in only one person. Although such co-operative methods are employed with great success in the Italian knitwear industry, the nature of the British industry's (knitting) character may mitigate against its duplication.

Finance, depending upon the size and extent of the co-operative venture, may prove a stumbling block for administrative/technical reasons. Problems of standardising quality control (assuming an order is obtained) over a number of companies; of the individual companies possessing adequate spare productive capacity to fulfill the order obtained via the co-operative as well as of coordination of production and delivery may deter financial institutions from funding the initial costs of establishing such an organisation. Economies of scale available in the purchase of raw materials, particularly yarn, to be realised necessitate the co-operative having sufficient funds to finance working capital requirements for the period between receipt of order and payment of goods delivered by the buying entity, which may be several months.

8.5.4 An Optimal Solution?

All of the alternative methods to assist the promotion of the export performance of the small firms sector of the East Midlands knitted outerwear industry it has been shown have difficulties attached to them, principally those of cost during a period of economic stringency. Governmental involvement, in some form, is seen to be a general requirement. The low cost solution which, on the basis of the limited survey undertaken, is considered to have greatest support from the population under study, is that of provision of free stand space at European knitwear exhibitions. No 'best' solution exists, the second best solution on the grounds of cost and short lead time between decision and implementation is, therefore, that of free stand space.

NOTES

(a) Bodies to which copies of the Working Paper were sent are the British Knitting Export Council, the Knitting Industries Federation, the Knitting Industry Sector Working Party Export Sub Group, the British Overseas Trade Board, and the National Union of Knitwear and Hosiery Workers.

(b) See for example:
Claxton, C, "Federated Marketing - A Practical Approach to Export for the Smaller Company or Division", Long Range Planning, Vol.12, December 1979, pp.43/49; and
Hodgson, S.C, "Exporting on a Small Budget", International Trade Forum, (Switzerland), Jan - March 1977, pp.8-10 and 16-19.

CHAPTER 9

LIMITATIONS OF THE RESEARCH

9.1 Size of Research Sample

In considering the findings reported in earlier chapters the methodological limitations should be borne in mind. The analysis of financial and qualitative information has been based upon a relatively small data base. The sample is not a probability sample, for the reasons given in Chapter 2. The 1976 Census of Production Reports (Annual) for the knitting industry[a] (see MLH 417.1 for a definition) reported that 825 enterprises existed in the knitting industries, of which 85% were by Bolton defintions small manufacturing firms, ie: they employed 200 or fewer persons. However, this research is concerned with only a sector of the knitting industry, conforming to certain definitional requirements.[b] No detailed classification of the enterprises constituting the component parts of the knitting industry being publicly available[c] an informed estimate was made of the total population of small, independent knitted outerwear manufacturers incorporated before 1973 currently operating in the East Midlands.

A potential research population of 225 companies was compiled from information obtained from a number of trade and official sources. A combination of factors restricted the sample of companies providing a data base for the investigation of financial characteristics to 67 companies. From this sample, a sub-sample of 37 companies were chosen to be the subject of a questionnaire study. Despite a high response rate (78.4%) only 23 completed questionnaires (62.2%) were obtained. Strictly, the findings apply only to the firms studied. However, this rule may be too rigid in view of the fact that the population, as defined, is not known. Although the sample size is small relative to the size of the entire knitting industry, it is suggested that as a proportion of the knitted outerwear sector (as defined) it is representative. However, some caution should be exercised in extending the impressions gained from this study to other small, independent knitted outerwear manufacturers.

9.2 Concept of Commitment

The formulation of an export model requires the identification of the variables involved. In an attempt to conceptualise the export process that appeared to exist within the population under examination, the concept of commitment was introduced in Chapter 6 and forms an integral part of the analysis presented in Chapters 6 and 7. The definition of commitment presented on page 42 is a simple and narrow definition. It is recognised that commitment is a complex, multi-faceted concept. For example:

$$C = (A, M, P, O_c, O_r, E_t, E^*, \pi, \mu)$$

C = commitment
A = attitudes
M = motivation
P = perceptions
O_c = objectives of the company
O_r = objectives of the respondent
E_t = economic situation at present
E^* = expectations of the future economic situation
π = profitability
μ = residual

The relationship above is a formalisation of the concept of commitment as it relates to the conceptual structure discussed earlier (Chapter 6) and the other issues arising from the questionnaire survey conducted (Chapter 7).

In order to appraise the influence of the variables specified above and to undertake a measurement of the concept, commitment, it is necessary to undertake further research which is beyond the scope of this study. It is suggested that two methodologies which may be appropriate to the measurement of the 'wish to export' are the administering of an attitudinal survey to the respondents of this survey or an indexation of the commitment to export of a larger sample in order that the findings may be substantive enough for statistical testing. Besides refining the measurement of commitment to exporting there is a need for an explanation of why commitment varies between companies.

9.3 Matrix

The use of a matrix format to portray the mode of export operation inferred by the research analysis implies a rigidity between the groups of firms. Although the classification of companies is revealed commitment and at a point in time correct, the schema does not reveal the fluidity and flexibility inherent in the multivariate nature of the concept of commitment. Further no account is taken of the time dimension, it is a static one period analysis, hence changes due to internal and external factors that change the model do not appear.

9.4 The Export Model

The model presented in Chapter 6 only attempts to identify the variables affecting exports by an individual firm. It does not, on account of the exploratory nature of the study, specify the relationship between the variables at a point in time nor the dynamics of the relationship other than the feedback loops. No attempt is made to explain how the variables relate functionally, ie: how the variables interact causally within the framework described.

LIMITATIONS OF THE RESEARCH - NOTES

(a) Department of Industry and Central Office of Information, Annual Census of Production, PA 417.1, HMSO, London, 1976

(b) See pages 29 - 30.

(c) Comprehensive details of the entire UK knitwear industry are kept by the Knitting Lace and Net Industry Training Board, but are not publicly available.

CHAPTER 10

POLICY IMPLICATIONS

Even though this research has the limitations mentioned in the previous chapter, the findings may bear on possible methods of improving the export performance of the knitted outerwear industry, and are relevant to the discussions regarding the form future economic policy for small firms may take. This chapter is, therefore, divided into two parts: the first will provide an examination of the implications arising from the research for the knitting industries and the second part will consider the research undertaken in the context of Government economic policy towards the small firms sector.

10.1.1 The Alternatives for the Knitting Industry

During the 1970's the British knitting industries have experienced contraction[a] and low levels of profitability allied with a general lack in confidence resulting in its capital expenditure falling.[b] Despite some growth in the domestic knitwear market the British industry's total output and sales have remained fairly static.[c] The implications of this situation are (as recognised by the SWP) that the industry, if it is to survive in its present form and size, would have to diversify into other (overseas) markets. The alternatives of improving the industry's domestic market share in the face of import competition from low cost sources of knitwear (particularly from the Far East) or following a policy of controlled contraction of the industry are considered to be either unrealistic or politically, economically and socially unacceptable.

10.1.2 Type of Policy for the Industry

A central issue with which this study of a sector of the East Midlands knitwear industry is concerned with, is whether an industrial policy should be general or specific? A 'general' policy would be concerned with raising the level of economic performance throughout an industry; it would be futile to discuss the merits of the various methods generally proposed - a stronger promotion of investment, more concentration or less.

A specific policy would take the form of choosing particular firms or sectors for selective support - whether by Government aid or other incentives to improve performance. In practice the Knitting Industry SWP appears to be advocating the first path. However, it is argued that the SWP has not revealed its criteria for such an approach.

10.1.3 Small Firms and the Export Strategy

In view of the fact that 85% of the enterprises comprising the knitting industry[d] are small firms[e] it is suggested that any proposed strategy directed at improving its performance must take this into account. Hence the success of any strategy for the industry, it is argued, requires that consideration be given to the small firms and in this case their possible contribution to the export strategy. It has been shown that small knitted outerwear manufacturers can and do export. Empirical evidence presented in Chapters 6 and 7 illustrated that a distinction in terms of proportion of total turnover exported and commitment to exporting existed and, therefore, three categories of company existed: non-exporters, dabblers and committed exporters. In terms of the export framework elucidated in Chapter 6 a number of variables have led companies to express a desire to export (non-exporters) and raise their export ratios (the dabblers) but they argue that certain factors inhibit their exporting ambitions.

The non-exporters and the dabblers have both identified a paucity of industry specific market information as a factor constraining their export activity. The uncertainty engendered by the alleged lack of information on potential overseas markets creates a psychological barrier that exporting represents the unknown and change. It appears that the dabblers (those servicing unsolicited orders, only, ie; stage 2 firms) and non-exporters require assistance to negotiate this hurdle and the operational one of obtaining the first export order and appropriate distribution channel for their products. All of the dabblers and non-exporters require convincing that exporting, properly planned, is worthwhile in the short, medium or long-term. In general, it appears that all of the small manufacturers of knitted outerwear, including the committed exporters, need help in pricing/costing goods produced for export.

A number of possible methods of assisting small manufacturers of knitted outerwear have been suggested in Chapter 8. The arguments for and against the differing approaches to the problem of overcoming the alleged barriers to exporting put forward are also presented but it must be stressed that they are not definitive, but merely mirror the opinions of members of the survey sample and industry-related bodies interviewed.

10.2.1 Implications of the Research at National Level

At a national level, the present research has implications for the allocation of resources devoted to the small firms sector of the economy. Adopting the Bolton definition of small enterprises in manufacturing industry (ie: those employing 200 or fewer persons) in 1973 they accounted for approximately 96% of all manufacturing enterprises in the UK. It is postulated that Britain's foreign trade performance could be significantly improved if the export potential of the small firm sector could be successfully tapped.[f] Unfortunately no statistics are available that disaggregate total exports by size of exporting company. Therefore, it is not possible to accurately determine the contribution currently made by the small firms sector to Britain's exports. Estimates of the contribution of the small firms sector to Britain's visible exports vary between 1% and 8%.[g]

10.2.2 The Small Firms Information Centres (SFIC's)

British government policy towards the small firms sector seeks to aid small businesses through the Department of Industry's Small Firm Information Centres (SFIC).[h] However, it is argued that SFIC services are too generalised for the small firms sector in general. The remit of the SFIC's mean that they have to cater for the problems of all types of small business; services, retailing and manufacturing and in any industry. They are not able, therefore, it is suggested, to provide the detailed specialised advice needed by small firms in specific industries (ie: the knitted outerwear industry). The type of assistance a company requires may be of a long term, highly specialised and industry-specific nature; for example, the problems analysed in this research, the constraints to exporting for small knitted outerwear manufacturers.

It is considered, therefore, that the method of support presently given to the small firms sector, particularly in the manufacturing sector, is inappropriate and should be fundamentally altered.

10.2.3 A Possible Alternative?

The SFIC should be restructured (or another agency created) so that their offices are established on an industry-specific basis. The offices would be manned by specialists in a particular industry and the office would be able to diagnose and propose remedies for the specific problems brought to it by small firms in the industry. The 'new style' SFICs would be located in areas where specific industries are regionally concentrated, eg: pottery and china companies in the Stoke on Trent area, footwear manufacturers in the Northampton area, knitwear manufacturers in the East Midlands region. The aid to the small firms sector would, therefore, be related to the needs of the small firms in the respective industries.

It is *recognised that SFIC's located in areas dominated* by a *specific* industry or industrial grouping will have experts and develop an expertise in the problems of that industry. However, whilst the SFIC's personnel have to dissapate their efforts across the broad spectrum of the small business sector, it is felt that their skills in the problems of (a) particular industry(s) are not being fully utilised. Further until SFIC's are rationalised on to a more industry-specific basis, their potential clientele, it is argued, will not consider them to be a possible source of advice and information.

POLICY IMPLICATIONS - NOTES

(a) In terms of employment from 132,400 in 1974 to 118,000 in 1979

(b) See Business Monitors Census of Production Reports (Annual), PA 417.1 (1973), PA 1000 (1976), Department of Industry Business Statistics Office, HMSO, London, 1974 and 1976.

(c) Over the period 1971 - 1979 output has remained at approximately 14 million dozens per annum, although in 1978/9 it did show a fall to about 12 million dozens. See Annual Abstract of Statistics 1980, HMSO, London, 1980, Table 8.75 and Millington, J T, "An Uphill Struggle in 1980", Knitting International, Vol.87, No.1033, Jan. 1980, p.31

(d) As defined by MLH 417 and stated in the Knitting Industry SWP Progress Report 1979, p.3

(e) As defined by the Bolton Report (Report of the Committee of Inquiry on Small Firms, November, 1971, Cmnd.4811) as manufacturing companies with up to 200 employees.

(f) Support for this contention comes a number of services including the Confederation of British Industry "Britains Small Firms - their vital role in the economy", 1971; and Cannon, T. "The smaller firm in the export environment" in "Policy Issues in Small Business Research", ed. Gibb, A and Webb, T, Saxon House, Farnborough, 1980.

(g) Report of the Committee of Inquiry on Small Firms op.cit. and Claxton, Christopher, "Federated Marketing - A Practical Approach to Export for the Smaller Company or Division", Long Range Planning Vol.12, Dec.1979, pp.43-49 respectively.

(h) Attached to the SFIC's are small firms counsellors who, although they use the information centres as a base, are independent of the SFIC's. The small firm councellors are generally retired specialists in a particular field, ie: finance, marketing, having wide business experience.

CHAPTER 11

RECOMMENDATIONS FOR FURTHER RESEARCH

11.1 Three Pillars of the Research

The exploratory study outlined in this thesis has given rise to potentially large areas for study. The three major pillars of this research offer, individually, possible research topics:

(a) further studies into small firms engaged in knitted outerwear manufacture and their desire to export;

(b) a wider examination of differing sectors of the knitting industry

(c) investigation of the export performance, potential and possible problems of small manufacturing firms in general.

11.2 The Knitted Outerwear Industry

A possible development in category (a) would involve closer examination of the role of growing competition (especially from low cost sources) in the domestic market as a factor motivating companies to adopt a more 'international' approach to their trade. A further extension of this study could view British knitwear exports from the buyers side - ie: investigate the reasons why foreign buyers purchase British knitwear and their opinions as to its strong and weak points compared to its competitors (imported and indigenous). This may lead to recommendations on how British companies can raise their exports by highlighting the indicated strengths and possibly eliminating the weaknesses.

11.3 Extension to Other Sectors of the Industry

Under category (b) a wider study of the knitting industry several approaches are possible:

i) the research findings for the East Midlands knitted outerwear industry could be compared with findings derived from a similar study of the Scottish knitted outerwear industry which differs from the East Midlands industry in several respects but does bear resemblances.

ii) The research could move horizontally and the methodology applied to the knitted outerwear small firms sector could be administered upon other sectors of the industry, for example, the hosiery or fabric manufacturing industries.

11.4 Developing the Model

Finally an empirical testing of the model presented in Chapter 6 could be undertaken to evaluate the validity of the model, and how the variables relate functionally. Further, the model could be broken down and the strengths of the individual variables measured so that co-efficients could be added. This process could also identify those areas of greater influence on the initial (and subsequent) export decisions and indicate possible policy measures to raise exporting activity amongst small manufacturing firms.

QUESTIONNAIRE

APPENDIX A

A. COMPANY DETAILS

1. Name of Company?

2. Position of the Respondent in the Company
(Please give a brief description of your responsibilities)

3. Which of the following describes your company's activities (if more than one activity please rank in terms of current size of turnover)?

   a) Manufacturing and marketing of own products (Includes selling to wholesalers and through agents) ☐

   b) Manufacturing products on contract for: ☐

      i) another manufacturer ☐

      ii) retail outlet(s) ☐

      iii) own brand labelling for wholesalers ☐

   c) Wholesaling of goods not manufactured by your company ☐

   d) Importing ☐

   e) Other, please specify ☐

The Company's products and its UK markets

4. At this point in time which of the following types of buyers do you supply? What proportion of your company's total annual sales (in monetary terms) are to these types of buyers?

	Single Unit Retailers	Retail Multiples	Whole-salers	Mail Order Houses	Dept. Stores	Others
a) Less than or equal to 10%						
b) 11% - 20%						
c) 21% - 30%						
d) 31% - 40%						
e) 41% - 50%						
f) Greater than 50%						

5. What is/are the method(s) by which knitted garments are manufactured by your company? Please give a description specifying; (if more than one manufacturing process is used please rank in terms of current size of physical output).

a) i) Fully fashioned ☐

ii) Cut and sew ☐

b) i) Flat bed machinery ☐

ii) 'V' bed machinery ☐

iii) Circular knit machinery ☐

iv) Other, please specify ☐

6. At this point in time what type of garment(s) does your company manufacture? (If more than one type of garment produced please rank in terms of current size of physical output.)

	FULLY FASHIONED	CUT AND SEW
a) i) Ladies	☐	☐
ii) Gents	☐	☐
iii) Childrens	☐	☐

b) See Appendix 1.

7. Does your company engage in direct exporting (direct exporting is defined as selling goods manufactured in the UK to buyers in other countries; it does not include garments sold to British buying organisations other than British export houses)?

YES ——— SECTION B ☐

NO ——— SECTION C ☐

B. EXPORTERS

8. a) How many years had your company been engaged in direct exporting?

b) When your company began exporting, approximately how many employees did you have?

9. In how many of the past five years has your company exported?

1 2 3 4 5

10. What were the most important factors, in rank order, that led your company to start exporting?

a) Decline in home sales
b) Increase in domestic market competition
c) Surplus productive capacity
d) Approach by foreign buyer, agent, etc.
e) Company interest in exporting
f) Marketing strategy of expansion
g) Recognition of Marketing opportunity
h) Expectation of greater profitability in overseas markets
i) Other - please specify

11. Roughly what proportion (%) of your company's total annual sales (in monetary terms) did exports form in your last financial year?

%

12. Has the proportion of total turnover exported (in monetary terms) changed during the past five years?

YES Please explain HOW?

WHY?

NO

13. In terms of monetary turnover, which 3 countries are your company's main export markets?

1st

2nd

3rd

14. At this point in time which of the following methods of export marketing does your company use? (If more than one please rank in terms of (i) frequency of usage and (ii) volume of monetary sales obtained using this method.)

		(i) FREQUENCY	(ii) VOLUME OF SALES
a)	The company's own representatives from the UK	☐	☐
b)	Overseas agents	☐	☐
c)	Overseas buying agents	☐	☐
d)	Importers/Wholesalers	☐	☐
e)	Export Houses	☐	☐
f)	Other, please specify	☐	☐

15. Has the method of export marketing altered over the past five years?

YES Please explain HOW? ☐

WHY?

NO ☐

16. At present to which of the following type of buying organisation(s) do you export, ranked in order of importance based on monetary sales?

a) Wholesalers/Importers ☐

b) Multiple retail outlets ☐

c) Independent single unit retailers ☐

d) Mail order houses ☐

e) Department stores ☐

f) Other, please specify ☐

Have the type(s) of buying organisation(s) to which your company exports changed during the past five years?

YES Please Explain HOW? ☐

WHY?

NO ☐

17. Which of your company's products are the most successful, in terms of monetary sales, in export markets?

18. To what extent, if any, do your garments manufactured for export markets differ from those produced for the domestic market in terms of - for example, style, quality, size, dimensions, colours, fabric, labelling, price, packaging, etc.

19. Have there, during the past five years, been any changes in the products that you export? (Please outline the changes that have taken place.)

YES ☐

If Yes, WHY?

NO ☐

20. Which of the following employees make sales visits to your export markets?

a) Product Design Staff

b) Technical Staff

c) Management

d) Sales staff

e) Other, please specify

f) None

When was the last visit?

21. Has/does your company conduct(ed) any market research on overseas markets?

YES

HOW? a) Desk Research

b) Field Research

i) by Company staff

ii) by Market Research agency

When was the market research undertaken?

How often is the information updated?

NO

WHY NOT?

22. Has/does your company use(d) any of the Government's services for exporters?

YES Please specify a) Export Credit Guarantee Department

b) British Overseas Trade Board

i) Market entry guarantee scheme

ii) Export marketing research scheme

iii) Overseas Trade Fair

iv) Others, please specify

c) Knitting Industry Sector Working Party

22/continued

Would you like to comment on any aspect(s) of the Services/Facilities provided?

NO ☐

23. Has/does your company use(d) any of the facilities offered by non-Government organisations for knitwear exporters?

YES Please specify
a) British Knitting Export Council ☐
b) Chambers of Commerce ☐
c) Knitting Industry Federation ☐
d) Export houses ☐
e) Banks ☐
f) Other, please specify ☐

Could you please tell me about the Service(s) which you felt to be useful and those you feel could be improved and how?

NO ☐

24. What do you consider to be the:

a) Main advantages of exporting?

b) Main disadvantages of exporting?

c) Constraints upon your company increasing the volume of its exports?

25. Is there any advice you would offer to prospective exporters?

26. Has this section covered all the points you think necessary regarding your company's exporting activities?

YES ☐

NO ☐

If No, have you any other relevant observations?

C. NON-EXPORTERS

27. Has your company exported during the past five years?

YES How often 1 2 3 4 5 years? ☐

When did you last export?

(If Yes, Q.29)

NO (If No, Q.28) ☐

28. a) Has your company considered exporting?

YES (If Yes, Q.28(b)) ☐

NO ☐

b) What were the three most important factors, in rank order, that led your Company to consider exporting?

a) Decline in home sales ☐

b) Increase in Domestic market competition ☐

c) Surplus productive capacity ☐

d) Approach by foreign buyer, agent, etc. ☐

e) Company interest in exporting ☐

f) Marketing strategy of expansion ☐

g) Recognition of Marketing opportunity ☐

Continued/...

28/continued.

h) Expectation of greater profitability in overseas markets ☐

i) Other, please specify ☐

29. What do you consider, in rank order, to be the major constraint(s) on your company entering the export market?

a) Production ☐

b) Product planning ☐

c) Marketing/Sales ☐

d) Market information ☐

e) Insurance ☐

f) Finance ☐

g) Physical distribution (eg: shipping, haulage) ☐

h) Distribution channels (eg: wholesalers, retailers, etc.) ☐

i) Export documentation/legal ☐

j) Advertising/promotion ☐

k) Competition in Export Markets ☐

l) Other, please specify ☐

30. Within the UK, do you regard the main competition to your business as coming from: (please rank in terms of the extent of the competition)

a) Imports

 i) Far Eastern ☐

 ii) Western European ☐

b) Other UK Companies

 i) Large (TA > £1m, T/O $\geqslant$ £3m) ☐

 ii) Small (TA < £1m, T/O < £3m) ☐

D. FINANCIAL INFORMATION

31. What investment has your company undertaken during the past five years affecting:
(Please rank in terms of the proportion of the total investment devoted to each aspect of your company's business.)

a) Product Innovation

b) Manufacturing process (eg: use of new technology)

c) Market development

i) Overseas (eg: market research)

ii) UK

d) Expansion of productive capacity

e) Other, please specify

Predominantly what type of finance was used to fund the investment?

32. a) During the past five years has the ability to make investments been constrained by the cost or availability of funds?

YES (If Yes, Q.32(b))

NO (If No, Q.33)

b) Have these constraints been due to:
(If more than one please rank in the order that you feel to be most important.)

i) Low profitability (defined as profit before tax and interest as a proportion of total assets)

ii) Inadequacy, unpredictability and time of cash flows

iii) Shortage of external finance

iv) Terms demanded by lenders:

1) Interest levels

2) Terms of loan

3) Interest cover required (eg: Profits low, interest rates high)

4) Security required by way of:

a) chargeable assets

b) guarantees

5) Equity stake

33. a) Has the decision or ability to make investments been constrained by factors other than the cost or availability of funds?

YES (If Yes, Q.33(b))

NO (If No, Q.34)

33/continued

b) Have these constraints been due to:
(If more than one please rank in order reflecting the extent to which the constraint has affected the decision or ability of your company to invest.)

i) Uncertainty arising from inflation

ii) General economic climate (eg: uncertain demand)

iii) Shortage of management

iv) Shortage of labour:

1) Skilled

2) Unskilled

v) Uncertain supply (eg: raw materials)

vi) Imports too competitive/International competition too extensive outside UK.

vii) Employment legislation

viii) Taxation

ix) Other, please specify

34. Do any of these factors affect your company's decision to export/not export?

YES Which, please specify?

Others, please specify

NO

35. What are your company's sources of finance? (Please rank in terms of (i) frequency of usage and (ii) as a proportion of total finance.)

	(i) FREQUENCY	(ii) PROPORTION
a) Internally generated funds		
i) retained profits		
ii) loans from Directors		
b) Clearing Banks		
c) Merchant Banks		

Continued/...

35/continued

	(i) FREQUENCY	(ii) PROPORTION
d) Insurance companies		
e) Industrial and Commercial Finance Corporation		
f) Other, please specify		

36. Currently what proportion of your company's total capital employed is represented by external funds? (Total capital employed is defined as equity and external debt, including overdrafts.)

a) Less than or equal to 10%

b) 11% - 20%

c) 21% - 30%

d) 31% - 40%

e) 41% - 50%

f) Greater than 50%

Has this proportion changed over the past five years?

YES Please explain HOW?

WHY?

NO

37. What form does this external finance take?
(If more than one please rank in terms of current size of debt.)

a) Short term
- i) Overdrafts
- ii) Factoring
- iii) Other, please specify

b) Medium term
- i) Medium term loans
- ii) Hire purchase
- iii) Leasing
- iv) Other, please specify

37/continued

c) Long Term i) Equity
ii) Long term loans
iii) Other, please specify

Have there, during the past five years, been any changes in the proportion of total capital employed represented by these differing forms of external finance?

YES Please explain HOW?

WHY?

NO

E. EXPORT FINANCE

38. What form(s) of finance does your company use to finance its exports? (If more than one please rank in terms of (i) frequency of use and (ii) proportion of export finance.)

	(i) FREQUENCY	(ii) PROPORTION
a) Export Credit Guarantee Department		
b) Clearing Banks		
c) Letters of Credit		
d) Others, please specify		

39. Does your company find export finance as readily available as domestic finance?

YES

NO Do you feel that this constraint on export finance has affected your company's export performance?

40. In which area(s) do you consider your company's main competitive advantage lies in export markets?
(Please rank in order indicating which you feel to be most important in terms of current export sales.)

a) Price ☐

b) Design and/or quality ☐

c) Prompt delivery ☐

d) Flexibility in meeting customers' specifications ☐

e) Service ☐

f) Other, please specify ☐

41. Do you consider that your company has any other advantages over its UK competitors in export markets?

YES Please explain ☐

NO ☐

42. Do you regard the main competition to your company in the export markets as coming from:
(Please rank in terms of the extent of the competition.)

a) Non UK imports
- i) Far Eastern ☐
- ii) Western European ☐

b) Imports from other UK manufacturers
- i) Small firms ☐
- ii) Large firms ☐

c) From the domestic industries in the export markets ☐

43. How would you describe the profitability (defined as in Q.32) of exports as compared with home sales?

a) Less profitable ⟶ Q.44 ☐

b) Slightly less profitable ⟶ Q.44 ☐

c) No difference ⟶ Q.44 ☐

d) Slightly more profitable ⟶ Q.45 ☐

e) More profitable ⟶ Q.45 ☐

44. If exports are generally less profitable than home sales, please rank the following reasons in order of importance:

a) Greater risk of loss in export markets ☐

b) Additional overheads attributable to exports sales ☐

c) Small size of export orders ☐

d) Greater competition in export markets ☐

e) Longer credit period has to be given for export sales ☐

f) Other, please specify ☐

45. Please rank, in order of importance to your company, any other benefits of exporting.

a) Prestige ☐

b) Security through diversification of markets ☐

c) Possibility of expansion which is more difficult to achieve in the domestic market ☐

d) Stimulus to introduce new products and/or new production techniques ☐

e) Other, please specify ☐

46. How important do you consider exports in terms of:

	(a) YOUR COMPANY	(b) THE KNITTED OUTERWEAR INDUSTRY
i) Unimportant	☐	☐
ii) Not significant	☐	☐
iii) Significant	☐	☐
iv) Highly significant	☐	☐
v) Crucial	☐	☐

Q.6. b) Product Range

Please indicate percentage for domestic and export markets (Export figures in brackets)

PROGRESSION

Price Level	Utility	Conservative Mature Look	Conservative Casual Look	Casual Look Fashion	Smart/Dressy Look Fashion	Exclusive Look Fashion	Progressive Look Fashion
UP MARKET							
MASS MARKET							
DOWN MARKET							

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DEPARTMENT OF MANAGEMENT STUDIES

APPENDIX B

Dear

I am currently carrying out a study of the East Midlands Knitwear industry paying particular attention to the attitude towards exporting of small knitted outerwear manufacturers. This research will form part of a larger project which is investigating the export performance of the East Midlands knitwear industry.

The topics which I wish to explore fall into three main areas, namely:

products manufactured by your company;
matters relating to exporting;
attitudes on and perceptions of exporting.

I would be grateful if you would co-operate in this research as I believe that you could make a significant contribution by providing practical and first hand information. I trust that such co-operation will be feasible. I look forward to hearing from you in order that a mutually convenient time can be arranged for me to visit your company.

As is usual in studies of this nature, strict confidentiality will be observed in relation to sources of information.

Yours sincerely,

S. Mohammed
Research Student.

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