

Jörg Dieter Sauer

Small Businesses as exporters:
Survey results from
Lower Saxony, Germany

edited by:
International Department
Institute of Small Business
Director: Prof. Dr. Wolfgang König

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Göttingen 1991

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1. Introduction

The study presented here deals with international aspects of German small business. Until now, this economic sector has primarily been examined with regard to domestic issues so that basic research into this area has had to enter new frontiers. The starting point for these considerations has been the observation that small business has become increasingly tied with aspects of foreign trade. This is because small business firms are increasingly influenced by international trade which is due, in part, to the growing international interdependency of world markets. The completion of the Single European Market at the end of 1992 will also create a new situation for the German economy, from which small business will not be excluded.

These trends will most likely pose a greater challenge for the competitive position of small business firms. The economic growth of the Federal Republic of Germany has often been induced by foreign trade, a development from which small business has been isolated because of its substantial orientation to the domestic economy. On the other side, large parts of small business were heavily assailed by imported goods competing for a share in the German market. Moreover, the competitive position of small business was further derided by industrial firms utilizing newly developed techniques to emulate the products of small business and by the increased significance of the shadow economy.

Small business has lost touch with economic dynamics and given up ground in its relative competitive position with the rest of the economy, especially with industry and retail trade. This becomes even more apparent when considering how the entire small business sector has declined in relative importance over the last twenty years.

One possibility to cope with the pressure of competition lies in cultivating new markets, also foreign ones. The growing influence of international trade may lead to a tightening of competition on the German market, but may additionally engender new opportunities for an engagement in foreign markets. Up to this date, no extensive empirical study existed for this topic of interest.

This study will therefore focus on analyzing the future perspectives of small business in Lower Saxony¹⁾ with regard to foreign trade issues. Based on the empirical data, consequences for an efficient support of these firms are derived²⁾.

In order to acquire a sufficient groundwork of data for this subject area extensive empirical data collections were necessary. A total of four surveys (I, II, III, and IV) were conducted among small business firms in Lower Saxony. Table 1 summarizes important findings and objectives of the respective surveys.

The document at hand contains the fundamental results of this research. An analysis of the present state of foreign business relations of small firms is given in Chapter 2. This is followed by an examination of the strengths and weaknesses of small businesses in an international context. Then, the additional export potential of small businesses is illuminated. The significance of public support programs is considered, if such is provided. Finally, some concluding remarks are made and future developments in this area are presented.

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- 1) The study is limited to the state of Lower Saxony because a confinement to the area proved necessary to provide a meaningful data collection. Most of the results obtained are, to a large degree, applicable to the other states of Germany.
 - 2) The presented paper is based on an extensive study on the export behavior of the German small business sector. See J. Sauer, *Das Exportverhalten von Handwerksbetrieben - Erkenntnisse aus empirischen Untersuchungen in Niedersachsen* - (Göttinger Handwerkswirtschaftliche Studien, Bd. 44), Göttingen 1991.

Table 1: Overview of the Empirical Studies Conducted

Survey	I	II	III	IV
Size of sample	3 529	146	66	48
Type of survey	written	written	written	Interviews
Date of survey	Spring '88	Fall '88	Fall '88	Spring '89
Claim for representativeness of results	yes	no	no	no
Target group	small business firms of all branches	potential exporters	exporters	exporters
Objectives	<p>examination of international trade relations</p> <p>some basic data on exporting activity</p> <p>reasons for abstaining from an export operation</p>	<p>defining the potential for exporting</p> <p>specification of export restraints</p> <p>characterizing the need for information and consultation</p>	<p>forms of behavior, motives and problems with exporting arrangements</p> <p>strengths and weaknesses of the firms</p> <p>evaluation of support instruments</p>	<p>completion and retrospective of current findings</p>

2. Analysis of Foreign Business Relations

2.1 International Trade Relations of Small Business³⁾

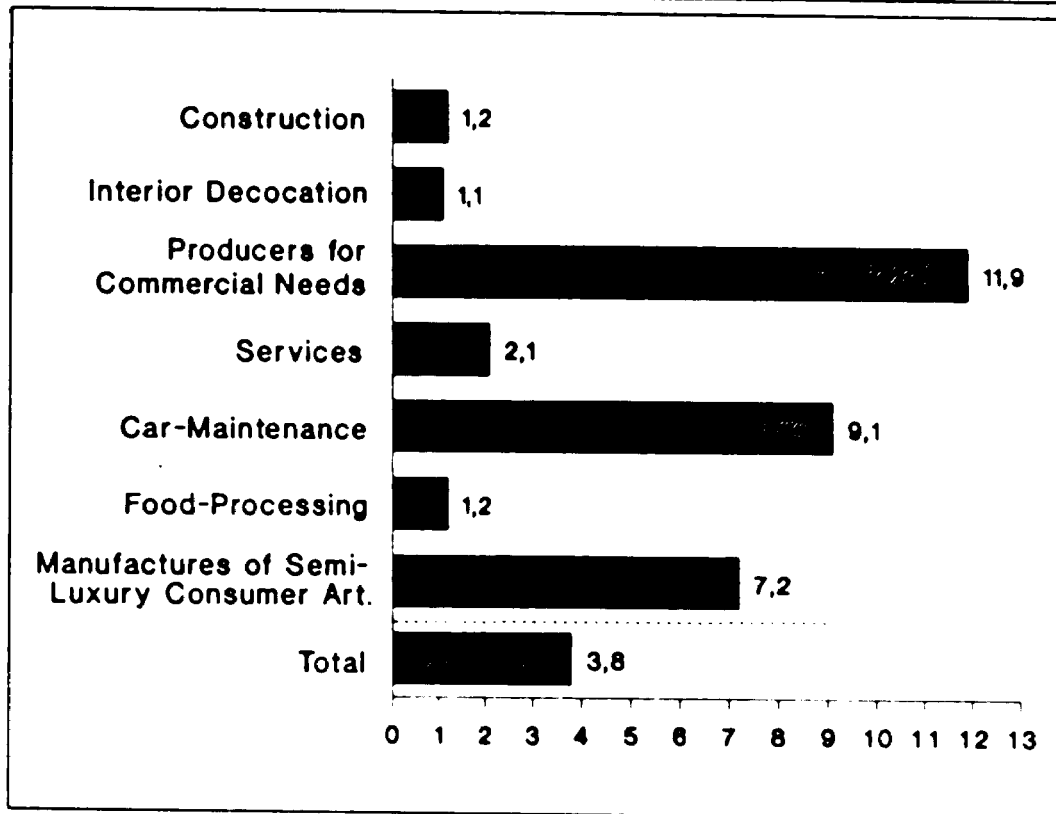
Engagement in a foreign country can take on many different forms. Besides exporting, which takes on a dominant role, there are those types of business relations such as technology transfer, foreign direct investment, subcontracting and imports. Since the last four mentioned forms are rarely implemented by small business⁴⁾, a more detailed study of these specific forms will be neglected and the further analysis shall concentrate on exporting activity.

- In Lower Saxony, 3.8% of small business firms market their products and/or services to foreign countries; 0.5% of the total revenue is composed of foreign transactions. For those particular firms exporting, these transactions comprise 12.3% of the average export share of business turnover, and compared with industry (with a share of appr. 29%) exporting business plays only a minor role. Greater differences do arise though, with regards to the industry in question, as well as to size and location.
- Considering the line of business it was observed that those small business firms producing for commercial buyers with a share of 11.9% were the ones most heavily engaged in foreign transactions (see Table 2). Following this group came car-maintenance firms and manufacturers of semi-luxury consumer articles. For small business in construction, food processing and services, foreign trade is rarely observed. In export intensive sectors, higher foreign earnings are made, thus making exports more valuable to business.

3) The results of this chapter are derived from Survey I and may be considered as representative. For a more complete discussion on these aspects refer to König, W.; Müller, K.; Sauer, J.; "Exportfähigkeit von Handwerksbetrieben - Eine empirische Untersuchung in Niedersachsen". Göttinger Handwerkswirtschaftliche Arbeitshefte, H.19, Göttingen 1988.

4) Of the 3529 firms that were questioned in Survey I only 12 firms conducted a technology transfer, 1 firm did a foreign direct investment, 6 small businesses carried out subcontracting, and 87 chose a direct import activity.

**Table 2: Share of Exporting Firms According to Small Business Sectors
(in % of firms) - Survey I -**



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1) results from 3 529 firms questiond

- The size of the firm plays a large role for an international engagement. With increasing size of the workforce the frequency of exporting rises and the importance of foreign business is valued more highly within the firm.
- The results indicated with regards to the location of the firm, that in those regions close to the border, small business exported a greater share than in the others. It follows that business close to the border bears a significant meaning. But the location of the firm essentially plays only a minor role for the initialization of international business connections. No further influence on exporting behaviour was established.

- The countries most frequently cited as exporting partners were the Netherlands, Switzerland and Austria. Export connections with countries outside of Europe played only a minor role. In general it can be said that the EC and German-speaking countries were the most significant trading partners.

In summary, one can say that the strong orientation towards the domestic economy was confirmed for a large contingency of small business. An exception was made here by small business firms producing for commercial buyers showing a large number of international ties. To a limited degree this can also be said of small business manufacturing semi-luxury consumer goods and car-maintenance firms. Next to the classification of small business groups, the frequency of exporting is also affected by the size of the firm, its location and selling radius. Accordingly, those firms export more, the larger the firm and the closer it is to the border. Especially very small firms show no desire or awareness for questions related to foreign business.

Furthermore, it was established that especially for those small business firms with considerable international ties, a substantially better economic development was observed during the 80's than for the other small business sectors. In light of these facts, the following questions arise:

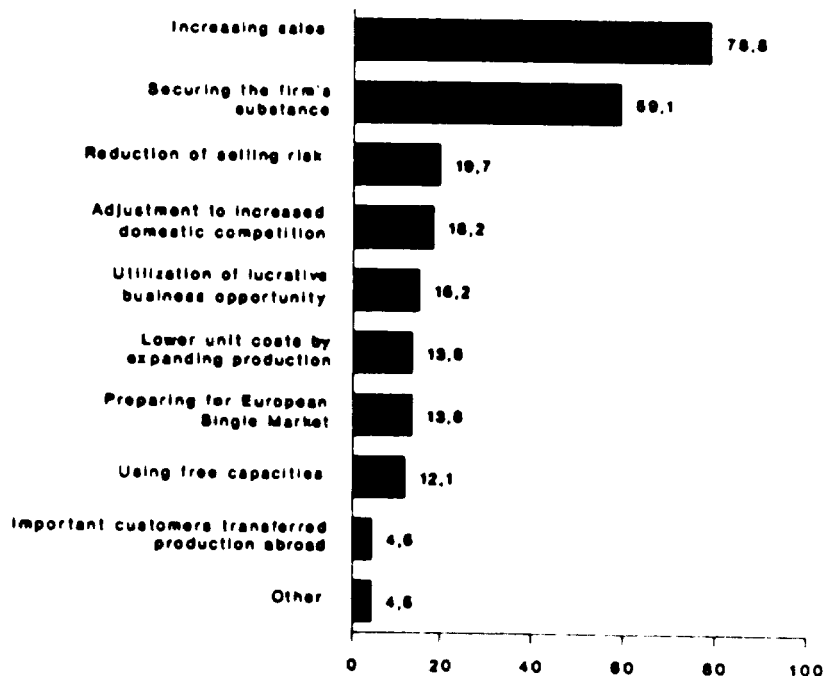
- What are the main characteristics of a successful exporting activity for small business and how can these be conducted?
- What prerequisites must an enterprise fulfill in order to successfully stand up against international competition?
- What role does public support play for export activities?

The following analysis is an attempt to reach more precise conclusions. For this purpose, the analysis will focus on small business producing for commercial buyers, since only this group is sufficiently engaged in the international division of labor to permit a meaningful evaluation of the empirical results.

2.2 Motives for Starting an Exporting Operation

International business transactions are not conducted just for their own sake, but serve the realization of company internal objectives. A foreign trade engagement can further have the effect of creating positive feedback for the firm in question. The survey therefore also examined the reasons for conducting an export operation and in which way these could improve the performance of the firm.

Table 3: Motives for Beginning an Exporting Operation (in % of firms)
- Survey III -



1) results from 66 firms questioned

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The primary operational reasons for initializing an export activity were to be found in *increasing the sales* (79% of the firms) and *securing the prosperity of the firm* (59%). These two criteria may be regarded as basic motives; aside from a few exceptions, most of the firms chose at least one of these two motives. Apart from these, there are a number of further positive effects that may arise for German small businesses that engage themselves in foreign trade. The following points particularly stand out:

- Every fifth small business entrepreneur would like to reduce the risk of sales through *market diversification in foreign markets*. This essentially means that, by adhering to market strategic principles, an international engagement should engender a reduction of the total operational risks.
- Some firms (13.6%) would like to achieve a greater production quota by expanding their exporting operations, in order to produce at *lower unit costs*. Some of the firms therefore seek advantages in increasing economies of scale.
- The utilization of *idle operational capacities* plays only a minor role. Only every eighth firm selected this criterion.

Aside from these points, there are also external factors that may induce some small business entities to follow an exporting operation. A relative frequently chosen motive (18.2% of the firms) was the *adjustment to increased domestic competition*. A number of the firms (15.2%) said they were only responding to a *lucrative opportunity*, and every seventh firm saw itself in *preparation of the European Single Market* in 1993. In a few rare cases, some firms were said to be reacting to a *transfer of production facilities* of some of their important foreign customers.

Even though the motives of increasing the sales and maintaining the substance of the firm were definitely the ones chosen by most, it should not be overseen that the analysis also revealed an array of secondary motives for small business firms to promote an exporting activity. International engage-

ments can turn out to be determinants of competition and help to consolidate the market position of a firm.

2.3 Export Capability of Small Business

An important objective of the analysis was to clarify the question as to in which operational areas German small firms showed strengths and in which areas they showed weaknesses. Essentially, this means determining the criteria that render products suitable for exporting. An engagement on foreign markets would, of course, show German small business firms with an initial disadvantage compared with domestic competitors in the foreign country in prospect. These are the result of higher transport costs, language barriers, insufficient data on the market, and in general a greater risk that is involved in foreign transactions. In order to compensate for these disadvantages and to succeed in exporting, firm-specific competitive advantages are required.

In Survey III, therefore, the firm's owners were asked to evaluate the strengths and weaknesses of their firm in an exporting operation. On a scale of 1 to 4 they were able to give a rating of the related criteria⁵⁾. An average was then computed from the results; higher average values indicated that the specific criterium was valued more highly.

To facilitate the presentation of the results, the various criteria were classified into four operational areas. Table 4 clearly shows that there are quite a number of differences regarding the choice of the criteria. Also, the four selected criteria were given different weights. Definite strengths were found to be *flexibility regarding special customer wishes* as well as the *quality of service*. On the other extreme special weaknesses were recorded in the *financial leverage of the firms* and the *procurement of information on foreign markets*.

5) Of course, not all pertinent factors were taken into consideration, but the most important criteria for small business firms have been included.

Tabele 4: Profile of Operational Strengths and Weaknesses of Exporting Business - Survey III - 1)

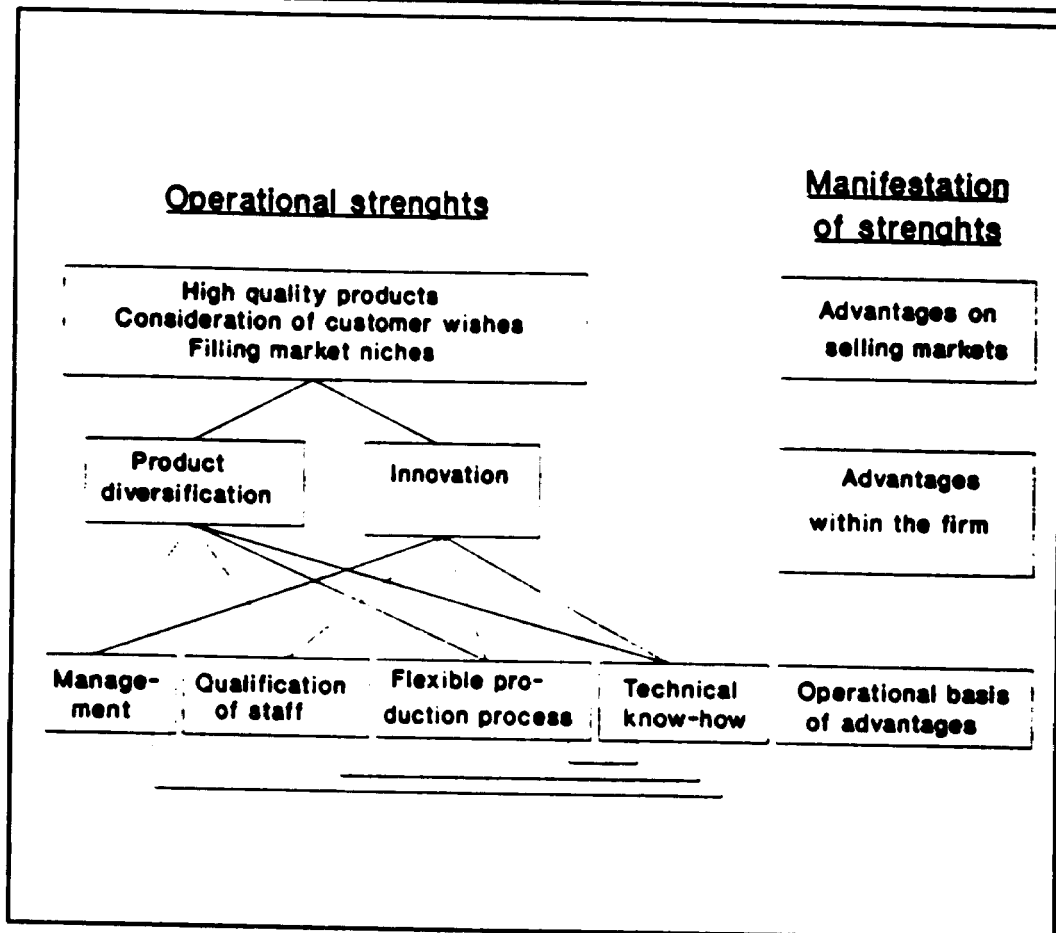
Criteria	Special weakness	Weakness	Strength	Special strength	Average
Product-related criteria					
Quality of products and services	1	2	3	4	2,97
Price of products and services	1	2	3	4	
Service modalities	1	2	3	4	
Creation of new products through innovative activity ^{b1)}	1	2	3	4	
Comparable skills not available abroad	1	2	3	4	
Process-related criteria					
Adjustment of production to special customer wishes	1	2	3	4	3,02
Productivity	1	2	3	4	
Volume of production (low unit costs)	1	2	3	4	
Resources-related criteria					
Financial leverage of the firm	1	2	3	4	2,78
Quality and motivation of Personnel	1	2	3	4	
Size of the firm	1	2	3	4	
Management factors					
Management	1	2	3	4	2,50
Procurement of information on foreign markets	1	2	3	4	
Total average	1	2	3	4	2,87

1) results from 66 firms questioned

The empirical analysis revealed that the advantages of small business firms lay primarily in their capability of adjusting the production to meet the demand for "specialties" of a kind. Specifically, this means offering unique quality or filling a gap in the market. It is often the case that specific demands of the purchaser are taken into account before production of the article. These three strategies, of course, are in practice not seperable, since they go hand in hand with each other.

The operational prerequisites for an efficient product development to assume a competitive edge in foreign trade can mainly be found in the individual tailoring of services coupled with the technical know-how required in German small business firms, as well as the flexible utilization of the production methods.

Table 5: Strengths of Small Business Firms in Foreign Engagement



Contrary to this, for the case of additional services such as guarantees and customer service, there are no distinct advantages in foreign business. Normally one could expect strengths in this area for this specific group of firms, but an effective customer service certainly exceeds the manpower capacities and thus work negatively here. On the whole, this area was classified as being neutral to competition.

Furthermore, in certain exceptional cases an aggressive price policy was launched to create a competitive advantage. Since the production costs of German small businesses usually exceed those of the foreign competitors, following a low-price strategy will not prove to be viable for most firms. Competition does not usually take place via the price mechanism so that this factor does not weigh heavily in the analysis. The analysis thus showed that the composition of prices is neither a strength nor a weakness in international trade since German small businesses essentially have an appropriate price/performance ratio, adding to their advantages.

The analysis further showed that the three strategies supporting product development do not only determine the exporting capabilities of the firms, but also set the preconditions for a supra-regional selling market inside of Germany. The competitive advantages in foreign markets are the same in the German market and are thus simply transferred to the foreign ones. This could lead one to conclude that a significant amount of supra-regional business in Germany is not only an indication for the extent and quality of export activity, but also of export suitability since firms inside Germany are conducting their business over large distances⁶⁾.

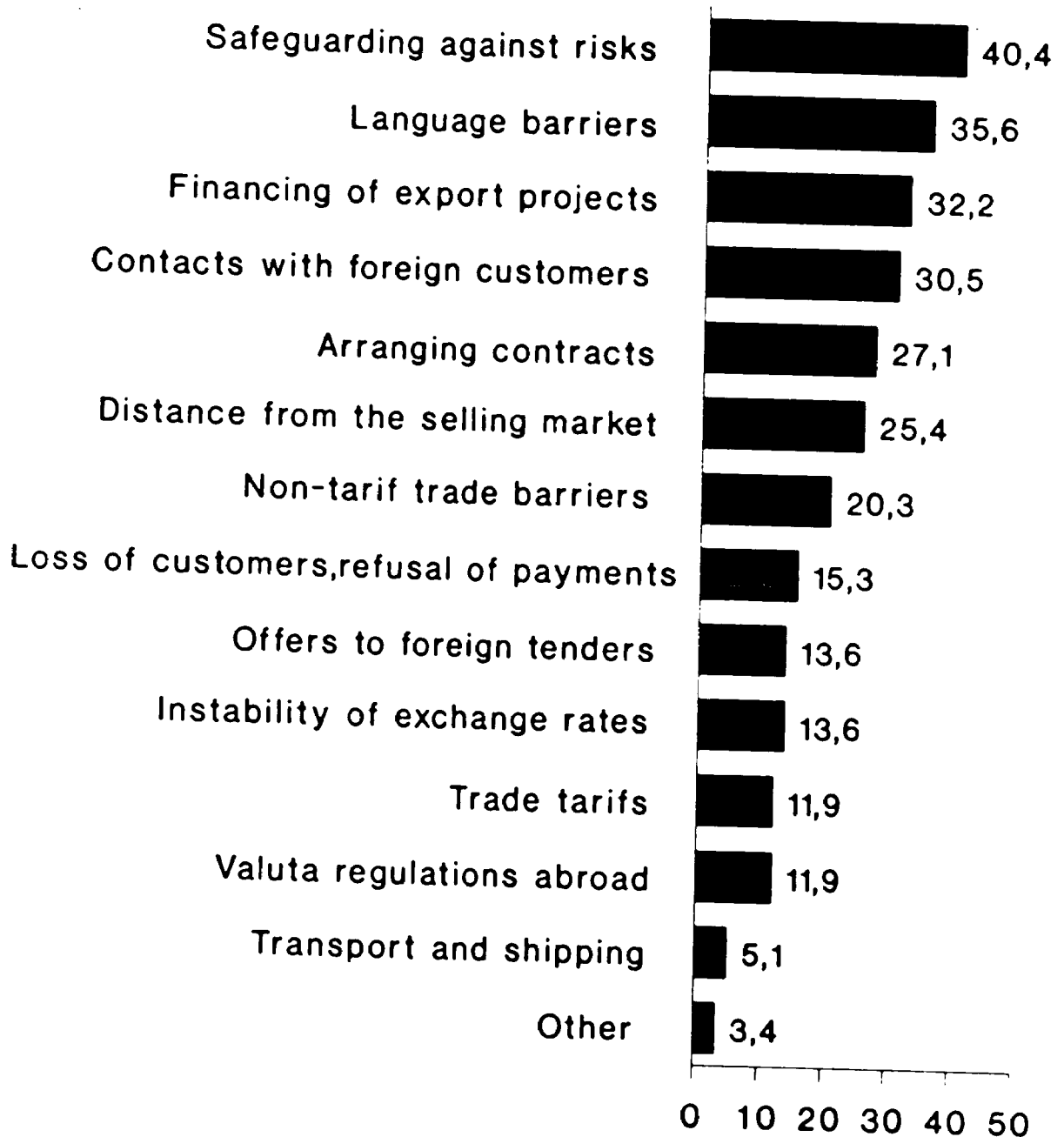
Of the supra-regionally active firms only a third is active in foreign markets⁷⁾. The empirical evidence showed that the step from German to foreign markets demands management know-how and skills that many small business firms lack. Especially the deficits in obtaining sufficient information on foreign markets had a negative effect. Accordingly, export preparation, finan-

6) This follows from the basic idea that a product from Hannover that is sold in Frankfurt or Munich should also be potentially sellable in Amsterdam or Paris.

7) The remainder of firms active in the supra-regional market also have the greatest additional export potential.

cing, and risk safeguards were among the problems deemed most difficult to master (see Table 6). Aside from keeping the number of exporters relatively small, these problems also tend to promote only a sporadic engagement in foreign markets without fully utilizing all the benefits an engagement could bring.

Table 6: The Significance of Problem Areas (in % of firms) - Survey III -



The afore-mentioned weaknesses in management skills also manifest themselves in the evaluation of problem areas in Table 6. The greatest difficulties were met in the financing of export projects and safeguarding against the unexpected risks of international transactions. Similarly, export preparation (such as language difficulties, establishing contact with foreign customers, determining the product assortment, presenting an appropriate offer for a foreign tender, arranging contracts) were classified as problem areas. Relatively little difficulties were encountered in areas like technical aspects of export arrangements (e.g. transportation), loss of customers, or refusal of payments.

2.4 The Concrete Realization of Exporting

Another point of interest of the empirical analysis is the concrete organization of foreign transactions. For the wide majority of small firms the planning of export operations is conducted by the manager. The know-how involved is obtained primarily from practical experience. Training seminars that are mainly held by chambers of commerce and industry were only attended in a relatively few number of cases. Seperate export departments were reported by only a few large firms that made large revenues in exports.

The responsibility of the manager for export transactions is mainly due to the limited amount of resources in manpower of small units. Furthermore, the minor significance of foreign trade for these firms would justify an export department only in a few cases. Finally, although a centralization of operational functions would doubtlessly promote flexibility, it also bears the risk of administrative complications that emerge from marketing instruments used in foreign transactions, especially as related with contacts to customers.

In establishing contact with foreign buyers one can differentiate between three basic methods. Contacts may develop coincidentally; through systematic planning; or be enabled by relying on external support. It is important to know whether the contact in question is new or if it is the product of a long-running export operation.

The search for potential buyers in foreign markets poses one of the most serious problems for the exporting small business, or those that show inclinations towards exporting (see Chap. 2.3). The firms mainly lack the necessary market information to round up potential buyers. The size of the firm is also a determinant here since the limited capacities in manpower are detrimental to a more intensive market analysis.

The result is that international engagements of German small business are undertaken without any prior planning through foreign customer inquiries. A mere 6.7% of the firms prepare their exporting operation through careful planning. For the wide majority of cases, exporting started in a rather haphazard way through coincidence and sporadically. For two thirds of the firms these business transactions have become a contingent part of their operational plans. Nevertheless, international engagements retain their sporadic character for about one third of small business firms.

On the one hand, the lack of systematic planning for exporting poses problems for active firms seeking to prepare further exporting operations. On the other hand, it has the consequence that firms give up their international business ties once their foreign buyer stops ordering. This second group of firms did not even have a long-term engagement.

In order to build up a successful long-term exporting operation, a systematic planning agenda is mandatory for international engagement. Contacts established by chance will surely continue to play an complementary role (see table 7), but they should not be the basis for international business. The aforementioned external support would also prove helpful in establishing contacts. This support manifests itself in a number of public and private institutions that offer their services for finding contacts. The wide spectrum of advice ranges from the Federal Agency on Foreign Trade Information, to small business chambers, foreign trade chambers, acquainted firms, business consultants, including banks and the RKW-productivity centre⁸⁾.

8) For a detailed look at the various possibilities refer to: Rationalisierungskuratorium der Deutschen Wirtschaft (Hrsg.): Möglichkeiten und Praxis der Kontakthanbahnung für das Auslandsgeschäft, Eschborn 1983, S. 4 f.

It should still be mentioned that apart from the possibilities listed in Table 7 long-term customer relations also provide an important contribution. Almost all firms firmly engaged in foreign trade underlined the importance of a *reliable clientele*. This does not only result in the continuation of transaction with old customers, but also creates new contacts by "word of mouth" *propaganda*.

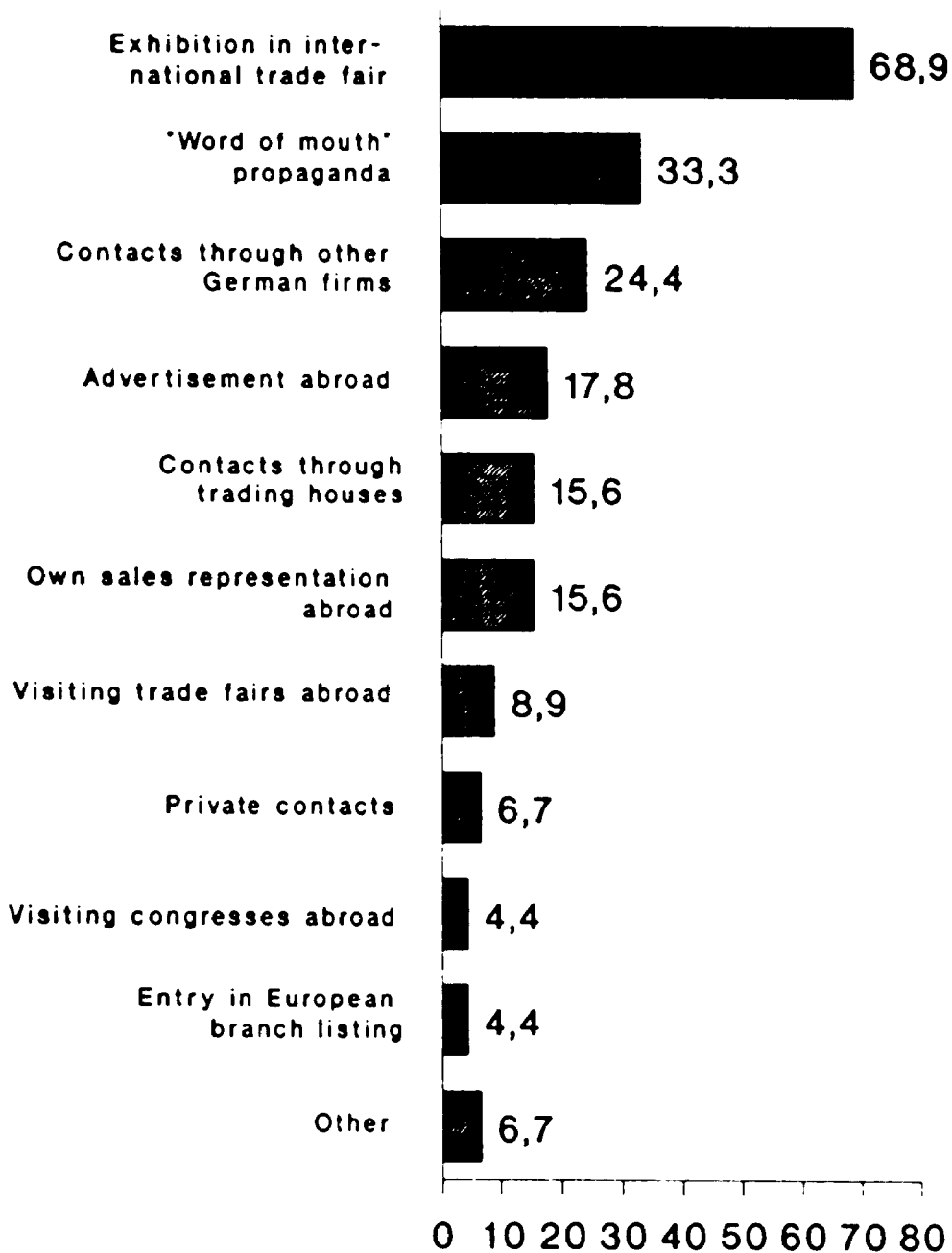
A further number of foreign trade connections may also arise rather coincidentally through the *mediation by other German firms*. This covers those contracts that are made in connection with large commissions to industrial firms or other services that result because a certain scale of delivery is not worth the while for a large German firm and thus relegate the contract to a small business firm.

Next to the passive forms of gaining contacts (that also pertain to those firms engaged in long-term exporting operations) there are also several other possibilities to hook up with customers abroad. The most important instrument is the *participation in an international trade fair*. More than two thirds of all exporting firms succeeded in establishing foreign contacts through this method. Domestic and foreign firms played almost equal roles here⁹⁾.

It should be noted that state and federal governments provide financial and organizational support to small business firms seeking to take part in trade fairs in the form of benefit funds. These programs are conducted by the foreign trade council in Lower Saxony. Surprisingly, these funds are seldomly taken advantage of by exporting firms (only every 6th exporter).

9) The significance of a participation in the Hannover Trade Fair for gaining contacts has been the subject of a study of the Institute of Small Business presented in 1985. See Müller, K.: *Analyse des Erfolgs einer Messebeteiligung - Handwerkliche Zulieferer auf der Hannover-Messe '85*. Göttinger Handwerkswirtschaftliche Arbeitshefte, H. 14, Göttingen 1985, S. 26 f.

**Table 7: Alternative Methods for Seeking Contacts in Foreign Business
(in % of firms) - Survey IV) -**



Advertising abroad is conducted by only a small number of firms. Advertisements are placed in trade journals or brochures in the respective language and sent to potential buyers abroad. These methods are employed to inform potential customers and convince them of the superiority of one's own products. Especially advertisements placed in trade journals seem to work well, since this alternative is not that costly and is well-targeted. Nevertheless, German small businesses advertise abroad to a limited degree which may be primarily due to the lack of planning for foreign engagements or the lack of appropriate market information.

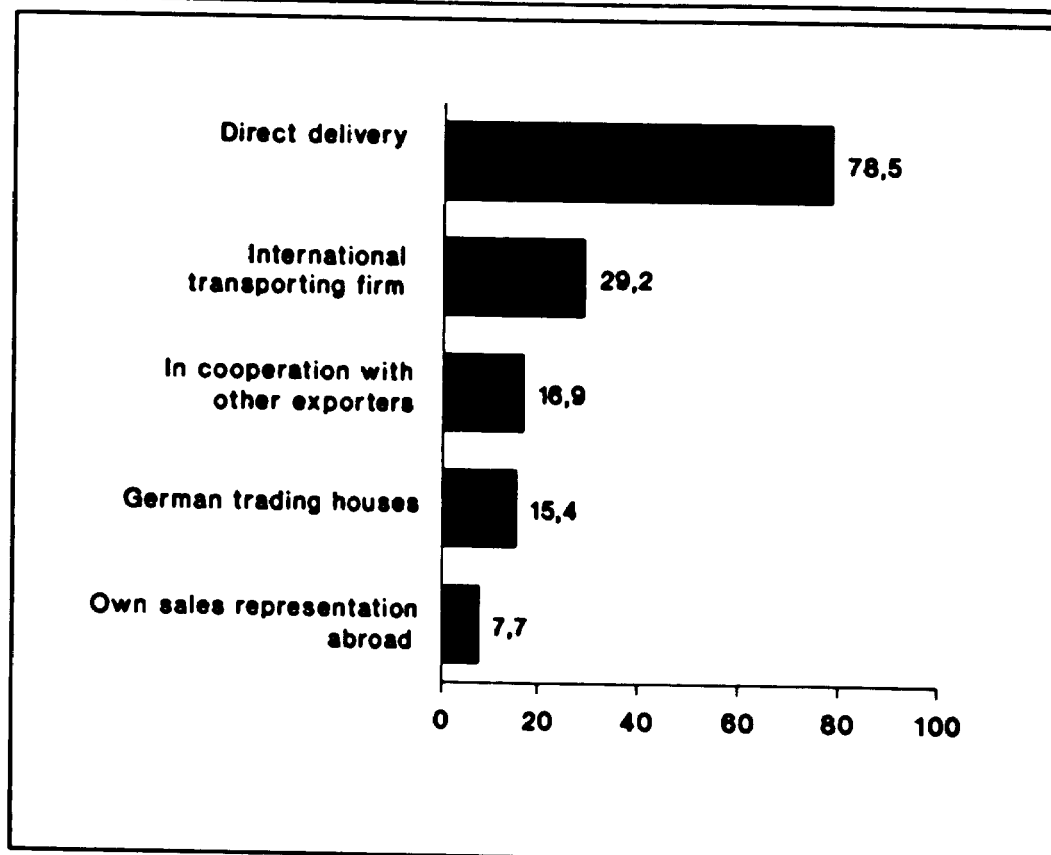
Mediation through export and import specialists as well as customer acquisition through trade mediators or foreign representatives are also of significance. Whereas smaller firms preferred the mediation through export/import specialists, the establishment of a large marketing network abroad is limited to large firms. These then are capable of overseeing personally the task of advertising and the selling of their products in the respective foreign country.

Other ways of searching for customers abroad are only used in few cases. It was observed that visits to trade fairs and expositions were especially fruitful as a way to establish contacts. The same can be said for the participation in congresses abroad on special topics.

In summary, one must note that with the exception of participation in trade fairs there seems to be little systematic planning when it comes to seeking contacts. Only a small number of firms take advantage of the possibility to conduct advertising or seek concrete target groups that they may accost at different occasions such as trade fairs, seminars or through direct correspondence. In most cases this can be accounted for by the lack of interest coming from German small business, a lack of market information, or factors related to time and language problems. Furthermore, external support measures for customer search, e.g. the export program of the State of Lower Saxony or export consultants of the professional associations of industry and commerce, are only seldomly called upon.

For the role of sales it is especially important to know in which way the products are brought to the end customer and which types of transport come into question. Table 8 shows the various forms of sales channels for German small business. A clear preference for *direct delivery to the foreign customer* was voiced. One important reason for this may be found in the small scale character of the firms that imposes a constraint on the number of options, such as establishing ones own marketing operation abroad. On the other hand, the technical composition of the products often demand instructive guidance or assembly on the spot so that a direct contact between buyer and producer becomes imminent. Furthermore, only in the case of direct delivery those features of small business catering to the special demands of customers can come to bear. Accordingly, the other types of sales channels have only a secondary appeal.

Table 8: Frequency of Sales Channels (in % of firms) - Survey III -



The transport of small business products to foreign countries is often managed by *international transporting firms*. Their know-how in transporting goods and their administrative skills can be relied on by the firms thus relieving them of another additional task. Deliveries were also conducted by train. In a small number of cases - as dictated by the volume of the goods - the products were delivered by the post office. It was expressed critically though that the delivery was not conducted swiftly enough and that the postal services were too bureaucratic. Furthermore, postage costs were said to be too high and delivery too unreliable.

Finally, a last important factor in foreign business transactions has to do with **contract arrangements** and in turn, price agreements. In this field, all firms of all sizes are similarly affected. The sales contract is a very important instrument for the business policy of the firm and regulates the services to be rendered and the obligations. In particular, the sales contract should contain the following components¹⁰⁾:

- Agreements on quality and quantity,
- agreements on prices,
- conventions on usual policy,
- conditions for delivery and payments,
- applicable law,
- court of jurisdiction.

Within the terms set by the contract, price agreements and the conditions therein are a critical factor. The question arises here whether the same pricing policy practiced in Germany should be administered in the foreign markets and, if this is not the case, which pricing strategy to be followed proves most efficient.

The analysis thus far has shown that pricing competition does not play a dominant role. As a rule, the price in German markets is simply applied to the foreign markets, or the price is slightly augmented to account for the additio-

10) See Börgers, K-H.; Quambusch, L.: Export und Direktinvestitionen. Ratgeber für Erfolg in fremden Märkten. Deutscher Wirtschaftsdienst, Köln 1985, pp. 54

nal costs of foreign transactions. A lower price was set only in a few rare cases in order to open new markets abroad.

The same can be said for the prevailing conditions for foreign transactions (rebates, delivery and payment conditions). Only about one third of the firms said they were willing to give price reductions in the form of rebates, at least as a temporary measure, when competing abroad. In most cases, similar conditions are provided as on the German market. But often it is necessary to accommodate foreign customers by offering more extensive payment deadlines, depending on foreign regulations or differing mentalities.

3. Potentials of Small Business for Exporting

There are two different methods for determining the potential for exporting. First, the firms were asked about their subjective interest for undertaking an exporting operation, and secondly they were inquired about the objective criteria that must be met for the firms to export.

As can be clearly seen in Table 9, about two-thirds of the exporters intend to prolong their foreign business and about 8% of the non-exporting firms plan to start up an exporting operation. A little less than 6% of this group of firms have not come to a clear decision on this point. Given the total number of firms in Lower Saxony this presents a veritable measure for the capacity to export. This potential though, varies greatly across the various small business groups and size classes of the firms.

Looking at the record for consistency in exporting it is striking that one third of the exporters have no intention of continuing their exporting. The line drawn between export-intensive firms and low quantity exporters does not exist on this specific point. Consistency in exporting therefore does not depend on group specific factors. The empirical analysis (Survey II, III) revealed the following four factors leading firms to terminate the exporting operation:

- Products were deemed as being unsuitable for exporting,
- loss of customers,
- financial difficulties,
- risk factors,
- size of the firm too small,
- the positive economic situation of the firm,
- only a sporadic export activity without the intention of greater engagement.

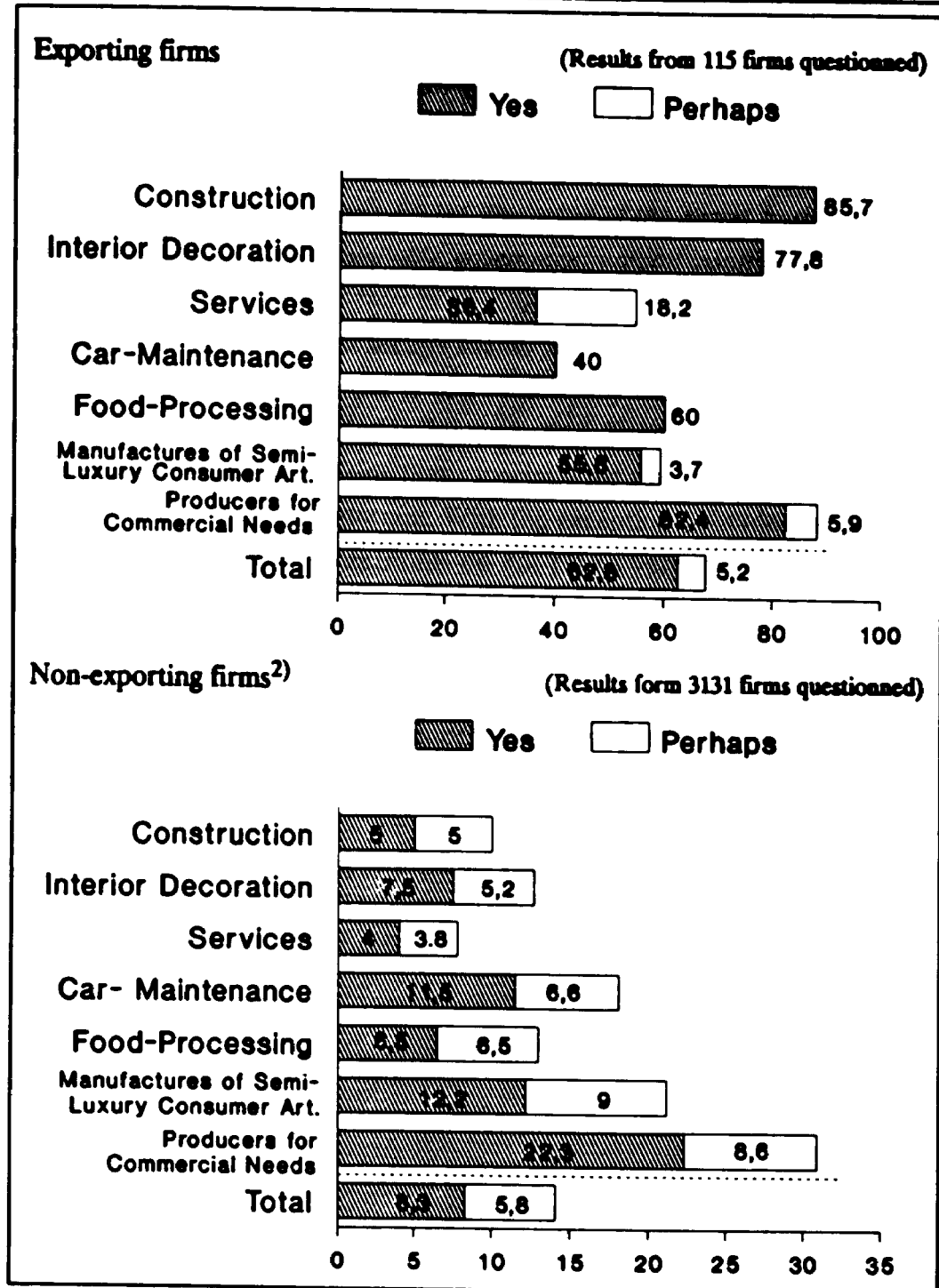
Some of these arguments lead to the conclusion that small business firms in general are not suited for exporting; from others one may alternatively elicit that a durable exporting arrangement could be established if external support were provided.

The small business firms that are not yet currently exporting were asked if they would be interested to export their products. About 8% of the firms said they intended to conduct foreign trade, another 6% chose "maybe". The willingness to export by the group of small business firms producing for commercial buyers was also the strongest here. This group was followed by the producers of semi-luxury consumer goods and car-repair outfits. For the other groups it can be said that they showed little interest for undertaking a future export business.

On the whole it is possible to trace a significant interest in exporting, but nevertheless the majority of firms do not wish to expand their current business activities across the border. Table 10 lists the reasons for abstention, again classified according to the groups of small business.

It is apparent from the table that there are a number of substantial differences in the evaluation of the particular criteria for the various groups. The *unsuitability of products or services for exporting* and the *small size of the firm* were the constraining factors said to be most responsible for not exporting. On the other hand, those criteria that could be regarded as an indication that the firm has already devoted its attention to questions related to exporting or

Table 9: Share of Firms Showing Interest in a Future Exporting Operation Listed According to Groups of Small Business (in % of firms) - Survey I -



follow from the special situation of the firm were not chosen relatively often.

The two export-intensive groups of small business - manufacturers for commercial needs and producers of semi-luxury goods - were least inclined to believe their products were not suitable for export. These two groups are already delivering their products in supra-regional markets. This can be elicited from the fact that these groups named certain criteria which showed that they had already considered questions related to exporting (*risk is too high, deficits in information and advice, financing of the export business is too problematic, no trained staff available, government support insufficient*).

The rest of the small business sectors seems to mainly direct their production to the regional market, and this is one reason why their own products were often deemed to be not suitable for exporting. Exporting ventures have a rather sporadic nature. It seems that especially for the group of services the proximity to customers is important. With the exception of inadequate size of the firm, the other export constraints do not play a very important role. The car-maintenance branch is an exception. This group of firms exports relatively frequently, but their own products are not considered suitable for exporting. This is due to the special situation of this trade, in which the firms are in some cases prohibited by the producers to undertake foreign business transactions.

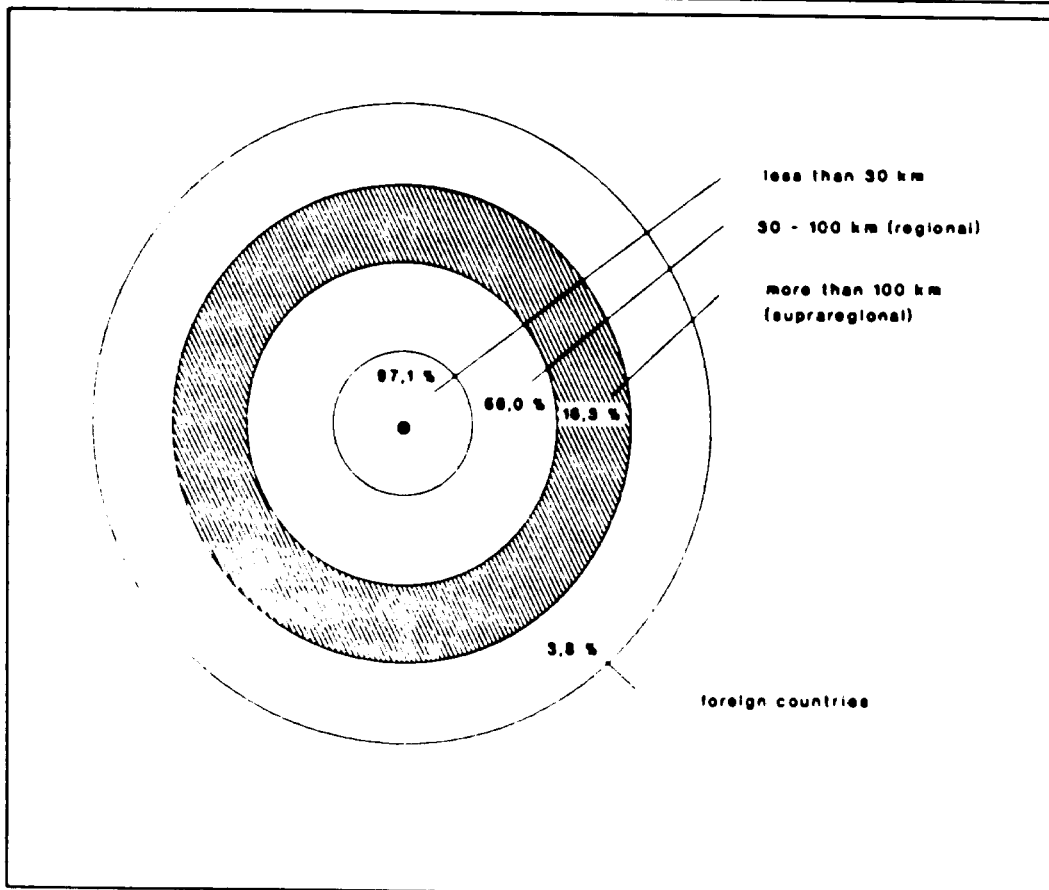
Objective criteria for an exporting operation may be derived by examining the selling radius of the small business firms¹¹⁾.

11) see also chapter 2.1

Table 10: Reasons for Abstaining from Exporting according to Small Business Groups (in % of firms)

	Construction	Interior Design	Services	Car-repair	Food Processing	Manufacturers of semi-luxury consumer articles	Producers for commercial needs	Total
Insuitability of products and services	56,7	58,2	74,8	56,3	59,9	38,6	42,2	56,9
Inadequate size of firm	42,7	42,9	18,8	17,0	37,0	51,8	43,4	37,1
No economic necessity	17,5	19,8	12,2	8,3	17,5	17,3	19,1	16,5
Possibility not taken into consideration thus far	11,8	14,0	4,4	11,8	13,6	19,0	14,5	12,6
Too risky	17,7	12,7	4,6	7,0	9,2	19,9	12,9	12,2
Deficits in information and consultation	7,7	9,0	2,8	9,2	7,8	13,2	12,1	8,6
Capacities already at full potential	6,9	8,9	4,6	1,7	5,8	14,0	17,6	8,4
Financing of exporting business problematic	6,3	5,5	3,4	5,7	5,0	10,8	11,7	6,5
No well-trained staff	6,9	6,5	2,3	6,6	5,3	6,4	9,0	6,1
Government support insufficient	4,3	2,6	1,4	3,1	2,8	6,1	6,6	3,7
Others	4,9	3,1	6,0	19,2	3,3	4,4	9,0	5,9

Table 11: Share of Small Business Firms in Various Sales Regions



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According to Table 11, almost every small business earns its revenues in the nearest vicinity (97.1%). About half of the firms have additional business relations in the regional area (30-100 km). Almost every sixth small business delivers across large distances and, as already mentioned, 4 % are engaged in export activities. Taking a closer look at the supra-regional area one can observe that a substantial part of the firms make a large proportion of their earnings in this peripheral zone. Adding the firms together and subtracting from this the number of firms currently exporting, an export potential can be computed of about three to four thousand firms. This magnitude is slightly less than the number of firms which showed a subjective interest in exporting. This is not surprising though, since not all wishes to export as expressed by the firms are based on a realistic background.

4. The Significance of Public Support

An assistance program aimed at supporting small business firms in their foreign trade activities should consider the weak points of the firms in the international context. Efficient support measures should only be exercised where export problems or export restraints are evident. In this sense, the preparation and mediation of export opportunities, but also export insurance and financing are aspects that should be mentioned. These are all problem areas that more or less fall in the business administrative category.

In the final analysis, these problems may be responsible for the fact that many firms show only a sporadic interest in exporting or encounter problems in processing exports; these points may also be the reason why the majority of firms capable of exporting are not internationally active. Of course, small firms should themselves take the initiative and increase their marketing activities, like setting up a marketing plan and thereby searching for new channels of distribution or by implementing additional communicative tools. The analysis of the firms' operations leads us to conclude that efficient support is necessary to compensate for the lack of exporting experience and in order to take command of important management functions. Especially in the field of market research and analysis a fundamental need for support is self-evident. Small business firms should profit from external support measures in this area until they have mastered all relevant exporting questions themselves. The field of financing and risk-insurance will - independent of experience and due to the small scale structure of the sector - continue to create problems. Language problems may further complicate matters, especially when considering the maintenance and instruction demanded by some of the products.

German exporting support programs are aimed at offering assistance to firms in their efforts to open new markets abroad. Furthermore, these programs help in limiting the risk as well as compensating for financial and taxation disadvantages. Support measures that bring about an artificial improvement of the competitive position of export products are seldomly activated. Instead, the main concern is to utilize instruments that improve the capacities

of export marketing or reduce the risk of exporting abroad. These support measures are followed according to the principle of "help through self-help". Thus German support programs focus on the greatest difficulties that are encountered by small firms in foreign trade. The empirical analysis conducted provides clues as to whether these instruments are efficiently implemented and whether their existence is familiar.

Within the framework of measures directed at small and middle-sized firms, support measures aim at compensating for the disadvantages small firms encounter due to their size¹²). Part of the support (especially the Euro-Fitness-Program of the German Ministry for Economic Affairs) contains international trade components and is well suited as support program for small business firms. In Lower Saxony, the Department for Small Business Promotion (Landesgewerbeförderungsstelle des niedersächsischen Handwerks e.V) is responsible for the coordination and execution of promotional measures for small business. The programs of the state with regard to foreign trade are conducted by the Foreign Trade Council in Lower Saxony (Außenhandelsstelle Niedersachsen e.V.), which is under the auspices of the chambers of commerce.

On top of these support measures there are a number of others that may not be directly classified as part of small business support since they were not developed exclusively for small und medium-sized firms. These include the assistance provided by the Federal Agency of Foreign Trade Information (BfAI), the Hermes-guarantees and the programs of the Export-Credit-Company (AKA-Ausfuhrkredit-Gesellschaft GmbH). Additionally there are programs offered by the European Community; of these the Euro-Info-Centres and the programs concerning the cooperation of small and medium-sized firms across the border are central.

Next to this level of public support, there is a second level of private aid. However, this support is largely motivated by commercial aspects. On the

12) Through the implementation of these programs the same competitive conditions for German small and medium sized firms should be guaranteed as for the other market participants.

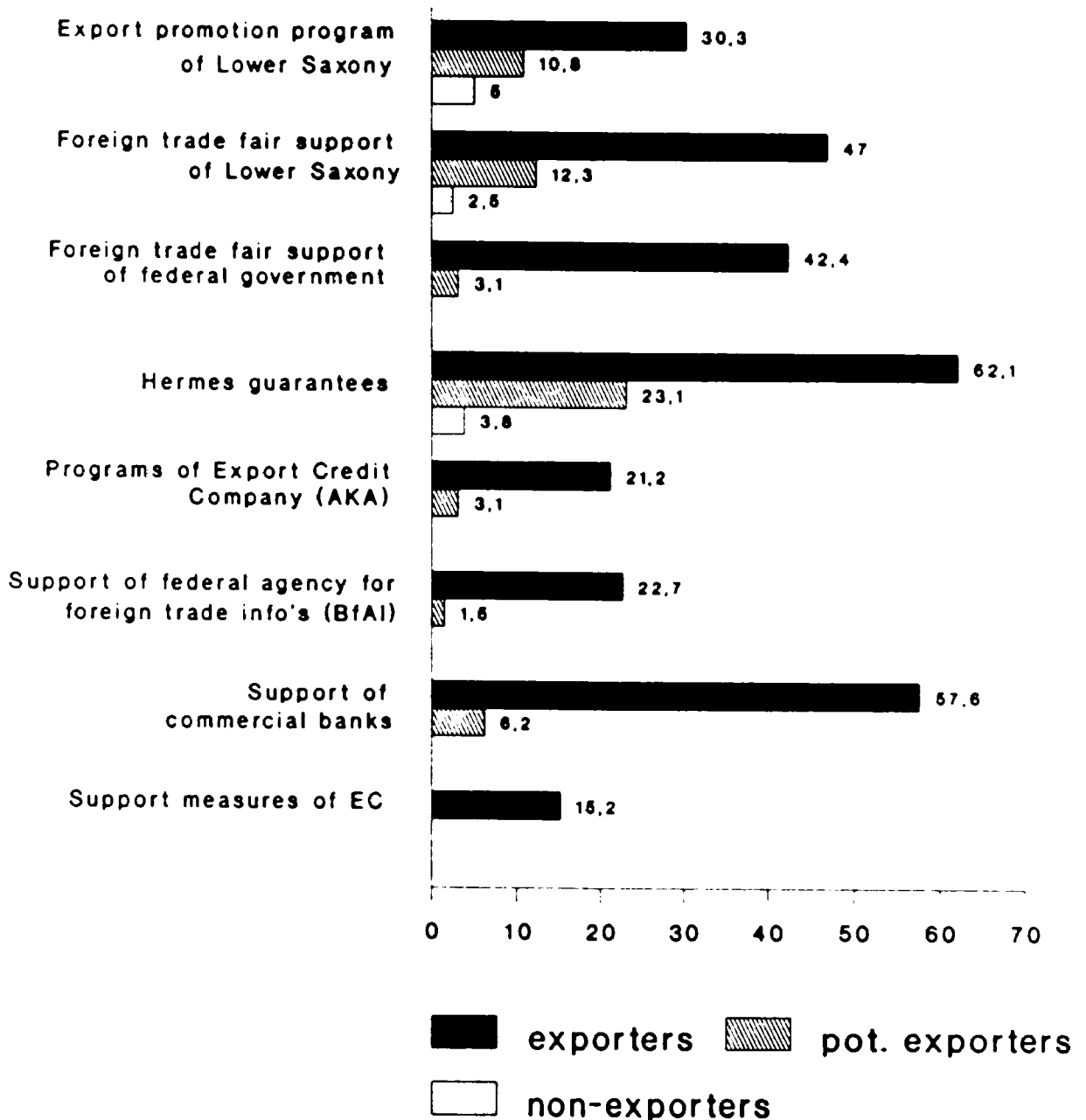
one hand, these can be consultative services provided by free consultants (although these may be subsidized by public grants) and on the other hand, German private banks offer help in foreign transactions. The second aspect is taken into consideration in Tables 12 and 13, while private consulting services are discussed thereafter.

Table 12 clearly shows that there are significant differences concerning the popularity of the support instruments between the three kinds of firms (exporters, potential exporters, non-exporters)¹³⁾ and also between the various instruments available. On the whole, this is indicative of a relatively low degree of information. This is also true for the group of exporting firms since federal Hermes-guarantees and the assistance provided by commercial banks are the only instruments known to a little more than half of the firms. It is therefore possible to remark at this point that a lack of information with regards to support programs is evident for small business firms. Furthermore, it was observed that those firms were more familiar with the support programs the larger the size of the firm.

The low degree of familiarity with the programs for the group of firms disinterested in exporting is comprehensible, since these firms presently do not have any ambitions in foreign trade and will probably not have any plans in the future. The following analysis therefore will neglect the quantitative results of this group of firms and will concentrate on exporters, as well as export-interested and non-exporting firms.

13) Consultation is also frequently conducted within the framework of a general consultation. This point will be discussed in part 3.2.2.

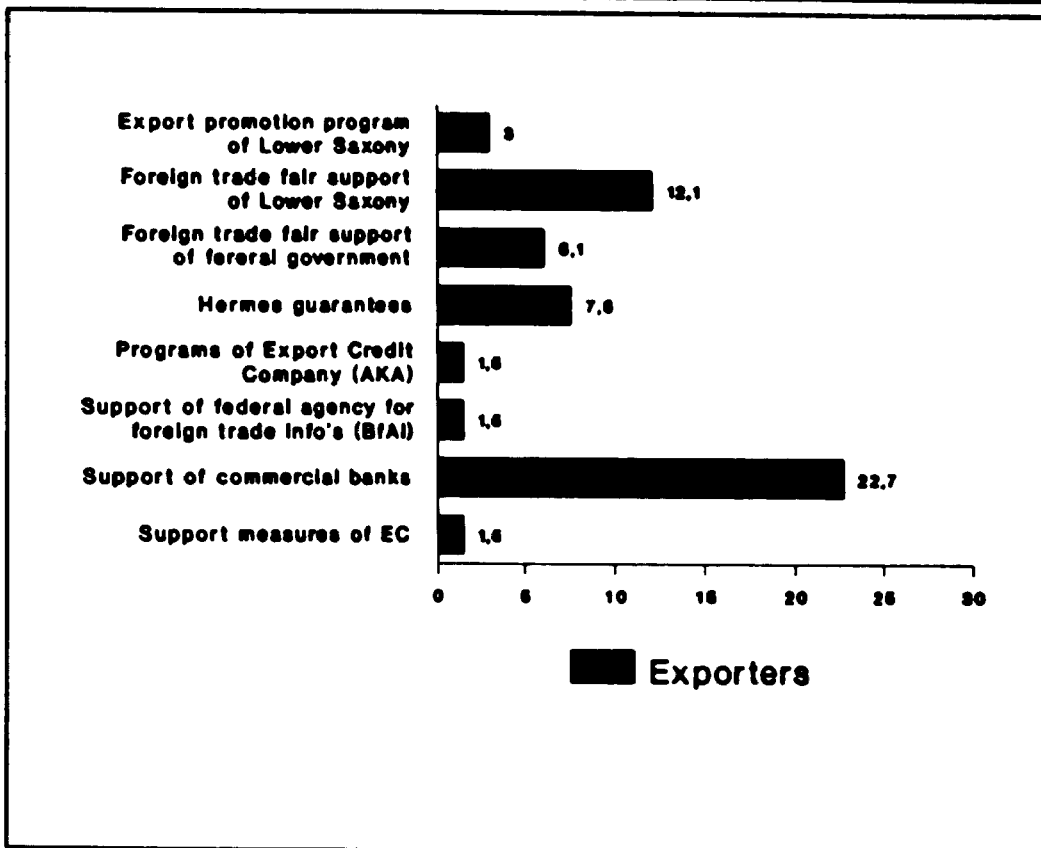
Table 12: Degree of Familiarity of Export Support Measures Relevant to Small Business (in % of firms¹⁾) - Survey II, III -



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1) results from 66 exporters, 65 potential exporters and 80 non-exporters

Tabele 13: Utilization of the Export Support Measures Relevant to Small Business (in % of firms¹⁾) - Survey III -



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1) results from 66 exporters, 65 potential exporters and 80 non-exporters

Aside from the degree of familiarity, the utilization of the support instruments must be examined. Taking the results of the survey recorded from the 66 exporting small business firms, only 23 firms took advantage of export support, and of these only 13 relied on public support (see Table 13). Every third firm thus utilized external support measures, but only every fifth tried public support programs. These programs thus have a lower utilization than, for example, private banks. Furthermore, it is note worthy that the degree of familiarity cannot be considered as a measure for the actual acceptance of the instrument. The Hermes-Program of the Federal Government, for example, was known to many small business firms, but was only used by five firms.

There are two problem fields with regard to the support programs. First, the relatively low degree of familiarity with the various programs, since relevant information is not available to the wider public. Second, the acceptance of the different instruments must be viewed critically. The following will attempt to shortly sketch some of the problems as derived from the analysis:

- A public support program aimed at firms contemplating to attend foreign trade fairs is certainly a well-suited instrument for small and medium-sized firms in their export marketing endeavours. Still, these measures seem to have a number of deficits. Some small businesses complained of exceedingly lengthy periods of waiting until they were allotted a participation in a suitable trade fair abroad or that the period between application and the date of the fair was too long. In both cases this can lead to a loss in flexibility. There were also complaints that the trade fairs held most worthy by small business firms are not included in the support program.
- The export program of the state of Lower Saxony is not familiar to a large degree, nor are its services as a support instrument satisfactorily acknowledged. There are probably two reasons for this: first, the administration of the program is conducted by the foreign trade council of Lower Saxony. This institution is only known to few firms and is consulted by only a handful of them. The second reason is related to the negatively rated consultation services provided by the institutions which deters firms from taking advantage of the programs. This aspect will be examined in detail in the next chapter.
- The support measures of the BfAI are intended to reduce the information deficits of small and medium-sized firms. This instrument which was not directly established for small business firms, is indirectly employed (although rather seldomly) through other institutions such as chambers of commerce. The possibility of directly addressing the BfAI is hardly recognized by the firms, and is probably not worthwhile for a single firm.

- Problems related with export financing and insurance are to be studied with regards to the programs offered by the AKA-Export-Credit-Company (AKA-Ausfuhrkredit-Gesellschaft) and the Hermes-guarantees. The financial support for export transactions offered by the Exporting-Credit-Company are only connected with medium and long-term engagements and are only suited for small business firms in rare cases. From an economic standpoint this instrument may also be viewed critically because it involves a direct subsidy, especially for short-term measures. As already mentioned, the Hermes-guarantee is very seldomly favored by small business firms, even though this instrument is relatively well-known. Small firms do not utilize this instrument at all, which probably has to do with the fact that the coverage modalities were not conceived for firms with a small volume of exports. This is expressed by the complicated administrative procedures as well as the high costs involved, putting a strain on a small business firm that has a low volume of exporting.
- Due to the timing of the survey, no general statements can be made about the EC support programs. The programs are conducted through the Euro-Info-Centres, the first of these having initiated operations only in the beginning of 1988. The respective survey was conducted in early August, just as the EC-Info-Centres were in the early stages of operation.

Next to these support measures, external support may also take place through export consulting services. In this way a concrete form of support is not only available for firms interested in starting an exporting operation, but also for those currently exporting. The main emphasis of this support lies in the administration of foreign orders. This instrument therefore begins with the operational weak points in export marketing - especially related to missing market information - and the bottlenecks in work power of small and medium-sized firms.

Two thirds of the exporting firms have already relied on consultation about export questions (23 of 65 firms with 26 listed consultations - Survey III). But mostly large firms were the ones that utilized the above-mentioned services. There appears to be a tacit consensus among the smaller of small businesses

that the manager should be personally responsible of all tasks without relying on any external help. A certain fear of embarking on something new is part of the reluctance to use these consulting services. In particular, the various organizations were selected according to how often their services were called upon (Survey III):

- Operation advisors of the small
business organizations = 11 ratings
- free-lance firm consultants = 6 ratings
- Operations advisors of the chambers of commerce = 5 ratings
- Consultation through the Foreign Trade Council in
Lower Saxony = 4 ratings

The most frequently chosen source of consultation was the own organization's array of services. Every sixth exporter has utilized the consultation offered by the authorized chamber or trade organization. The services offered by the chambers of commerce and the Foreign Trade Council are, nonetheless, also taken advantage of. This instrument is additionally of importance because within the framework of the export program of Lower Saxony the addresses of exporting consultants are passed on to interested firms and, secondly, because it is possible to acquire financial support for the costs of consulting services. Nonetheless, the empirical analysis found that this form of support was seldomly called upon. This most surely has to do with the reluctance of many firms to accept external consulting services and with the poor ratings that were registered for these services. On the other hand, this alternative for support is almost unknown.

Concerning the appraisal of the consulting services there are relatively few responses, but from these it is still possible to derive a trend and come to some informative results on the quality of the services being offered. Of the twelve firms, five rated the consultation as "good", one of them stated that they "could be improved", whereas six of the firms said the services were "poor". Thus only less than half of the firms considered the consultation to be effective. The primary cause of complaint was seen in the incompetence of the consultants.

Distinguishing between the various consulting agencies, one notices that the consultation provided by the Foreign Trade Council in Lower Saxony and the chambers of commerce were not classified negatively. Since these institutions have both served firms in export related questions for a long period of time, they seem to have acquired a certain amount of competence. The consultation services provided by the small business organizations were partly evaluated as being unsatisfactory. Above all, the lack of experience in questions related to exporting was the main point of criticism. One should note, however, that compared to the chambers of commerce the consultants of small business organizations do not undergo special export training. The rating of export consultation of private agencies was especially negative. In four out of six cases their services were considered "poor". Regarding the insufficient evaluation of this external consultation even the financial aid for these services is of no real value.

The primary reasons for those firms that did not utilize consultation will be examined next (Survey IV). One significant reason was that an external consultation was not considered to be necessary. Secondly, many of the consultants were thought to be incompetent or not qualified. For example, one small business proprietor stated that most of the consultants could learn more from him than he would in the course of a consultation. Furthermore, a certain reluctance to call upon external management capacities could once again be observed.

In summary, it can be said that the low degree of familiarity with the various forms of support measures hampers their ability to stimulate the potential for exporting. On the other hand the measures do not show a large acceptance since they were only utilized in a small number of cases¹⁴⁾. Furthermore, large parts of small business do not take into consideration questions related to exporting. The instruments that are available do not take into account that small business must first be imbued with a certain sense of sensitivity for questions related to foreign trade before an exporting endeavour can even be

14) There were certainly a number of firms in the survey whose current exporting operations have reached the point where they are no longer in need for support measures. But those that have encountered problems in the process of exporting seldomly rely on any of the instruments.

considered. Many firms lack the initial "push" that would ignite their interest in an exporting operation. This statement is proved by the fact that the export-interested non-exporting firms were only to a limited degree familiar with the various support instruments.

5. Concluding Remarks

The empirical analysis suggests that foreign engagements do have an important meaning for small businesses, but that the chances that present themselves in foreign markets for these firms are too seldomly realized. Generally, small businesses may be subdivided into two groups. First, there are those firms whose products and services are sold in a concentrated regional zone; second, those firms whose selling radius extends across larger distances, i.e. the goods being delivered supra-regionally. Most of the exporting small businesses and to a large degree also the potential exporters come from this second group. For the first group of firms it should be difficult to spur any interest in exporting or to activate a current potential for exporting.

These observations led to the question as to the differences that exist between products that are confined to a small regional zone and those that are sellable abroad and how the respective firms differ from each other. In essence, this question is linked with the aspect of capability of a firm for exporting.

The conclusion may be drawn that firm-specific competitive advantages manifesting themselves in product related advantages open the possibility to market the products on a supra-regional plan. The advantages of small business enterprises can be found in the technical area as well as a flexible utilization of the production process; quality leadership, concentration on market openings and customer-oriented problem solving are indicative of these. The price of the product plays only a minor role since the price/performance ratio is essentially the determinant factor. From a dynamic point of view small business firms are able to persevere in the face of

competition by developing new or differentiated products and are thus able to retain their competitive position, thus avoiding a direct price competition.

In order to export and to succeed in a medium and long-term exporting engagement, additional skills in management are necessary as well as a solid financial basis. In this point small business firms are at a disadvantage. This is especially true in the field of information retrieval, seeking contacts and in contract and price arrangements. Because of the small firm size there was furthermore the problem of financing and risk coverage. The empirical analysis moderated these findings by showing that with the continuation of exporting operations these problems lost their initial severity. Still, a prolonged exporting operation is not the path chosen by the majority of firms because international engagements remain a rather sporadic affair resulting in a multitude of further problems.

The main reason for the restraints exercised by the firms is that many of them lack a definite concept for an international engagement. This is exhibited by the firms already leading an exporting operation, relying to a large degree on coincidence or leaving the present arrangements as they are; small business firms leaning towards an exporting operation do not possess a clear picture of their engagement abroad. The business operations are often led haphazardly and improvised, without a coherent plan. There also appear to be deficits in public support that would compensate for some of the inherent weaknesses that small business firms must face.

The ideal setting of an international engagement would be one in which a marketing plan with aims, strategies and operative measures is laid down prior to the exporting endeavour. Until now though, exporting proficiency was sought through an efficient product design and all other questions related to exporting were thought to develop as time went on. Naturally problems and difficulties remained in this way. The problems are only resolved as experience in exporting grows.

This is exactly the area where public support programs may find their application, delegating some of the tasks that burden small business firms, such as

information retrieval or the search for business contacts abroad. In a society where the markets are gradually becoming more open but at the same time narrower these programs seem all the more necessary. Too much weight is set on the supply side and for small businesses this entails the necessity to switch from production-oriented to selling-oriented thinking.

Unfortunately, the present array of support programs offered by Lower Saxony are beset with deficits. In a working paper published by the Institute of Small Business a number of proposals are conceived, showing how the support instruments available may be better organized in order to tap any additional export potential. Concrete measures are presented that aim to ameliorate the problem areas met by German small business in foreign trade. The decision for a practical implementation of these proposals rests on the policy makers.

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The Institute of Small Business at the University of Göttingen does research on microeconomic and macroeconomic issues concerning the development and growth of small and medium sized companies. There are close institutional links to the German small business community and its organizations. The two Directors of the Institute are professors of the Economics Department of the University of Göttingen.

The International Department of the Institute focusses on export behavior and other forms of internationalization of German units. Research is also carried out on questions raised by the European Common Market and other international developments with an impact on the competitiveness of small and medium sized companies. Furthermore, the Institute is involved in projects of small business promotion in Third World countries.

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