Do Structured International Trade Missions Improve Corporate Performance?

By Dr. Don R. Beeman, Hans Rosebrock, and Oanh Tran

A 10-YEAR ANALYSIS OF NAFTA VISITATIONS

Exports can be a driver for job creation. As such, many economic development organizations have established export assistance programs to garner employment growth. Small to medium sized firms, many of which do not have the resources and internal expertise to investigate global expansion, could be helped by export assistance programs. Literature regarding the effectiveness of such programs has been mixed. FirstEnergy Corporation’s EXPORT NOW program has assisted 180 companies with exporting products/services between 1995 and 2004. Of the 180 companies participating in the program during this 10-year period, small to medium sized companies demonstrated clear job growth. FirstEnergy’s EXPORT NOW program reveals that small to medium sized manufacturers, open minded about international trade and willing to explore opportunities, with assistance, can find them and create jobs in the process.

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Weed and Seed brochure.
INTRODUCTION

Because exports are a major driver of job creation, many organizations (government, non-profit and for profit) have programs to help firms become more effective in export development. Despite the abundance of such programs, it is unclear to what extent they actually serve as catalysts for increased exports, employment or other related dimensions of corporate performance. This article examines the impact of one such program, FirstEnergy’s EXPORT NOW program, which has been carried out by FirstEnergy Corporation, a diversified energy company that has served the states of Ohio, Pennsylvania, and New Jersey, since 1995.

PERFORMANCE, EXPORTING, AND EXPORT DEVELOPMENT PROGRAMS

There is a significant body of literature addressing the connections among firm performance, exporting, firm characteristics, and export assistance programs. The research between exporting and firm performance is extensive but has shown very mixed results. Girma et. al. (2002) investigating UK manufacturing firms found that exporters were more productive; while, Bernard and Jensen (1999) found that exporters experienced faster employment growth but did not show greater productivity. Arnold and Hussinger, studying German manufacturers, concluded that high productivity firms self-selected into export markets but that exporting did not heighten productivity. These and other studies are summarized in Table 1.

Studies have also examined the relationship between firm size and export performance, again with mixed findings. Ali and Swiercz (1991) surveyed 500 corporations in Kansas, Missouri, and Nebraska, concluding that size influenced numerous aspects of export activity, but that this relationship was interactive with other variables. Bonaccorsi, studying 8,810 Italian companies, found that firm size was positively associated with propensity to export and negatively associated with

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export intensity. Calof (1994) analyzed 14,072 Canadian manufacturers and came to similar conclusions. Sterlacchini’s (2000) survey of 4,005 Italian manufacturing firms found that for small firms, there is a “positive and significant correlation between size and export performance”. Voerman, et. al. in an empirical study of small and medium sized European enterprises (SMEs) found that country-of-origin, industrial sector, and firm size impacted export market information collected which in turn was positively correlated with export performance. Others have found positive relationships between size and export success. There have also been studies that found no relationship or even a negative relationship between size and export success. Patibandla (1995) reported a negative relationship between firm size and export intensity. Wolff and Pett (2000) surveyed 157 Midwestern firms and found no relationship between firm size and export performance as did Bonaccorsi, 1992; and Moini, 1995.

The literature also indicates that a major barrier to export success is the lack of market information (knowledge). Information is vital in reducing the level of uncertainty associated with foreign business environments (Welch and Wiedersheim-Paul, 1980). Informational barriers impact both the export management decision making and export performance (Morgan and Katsikeas,

### Table 1 – A Summary of the Key Features of Studies of Exports and Productivity

<table>
<thead>
<tr>
<th>Study</th>
<th>Country</th>
<th>Sample</th>
<th>Methodology</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bernard and Jensen (1999)</td>
<td>US</td>
<td>50-60,000 plants 1984-1992</td>
<td>Linear probability with fixed effects</td>
<td>Self selection of exporters Absence of learning from exporting Higher productivity of exporters</td>
</tr>
<tr>
<td>Aw and Hwang (1995)</td>
<td>Taiwan</td>
<td>2,832 firms 1986</td>
<td>Translog production function Cross section</td>
<td>Higher productivity of exporters Self selection Absence of learning from exporting</td>
</tr>
</tbody>
</table>
1997). Stated differently, having foreign market knowledge positively influences export performance (Styles and Ambler, 1994; and Moini, 1995). Overall, the literature suggests a positive but indirect relationship between market information and export performance.

There are two ways to correct a lack of market knowledge: international marketing research or hands-on export experience including training programs. Numerous studies conclude that the extent of market research explains export performance (Dominguez and Sequeira, 1993; and Moini, 1995). Hands-on programs like export assistance programs generally are divided into two main categories (1) export services programs (e.g., how-to-export handbooks, seminars for potential exporters, export counseling, and programs on export financing) and (2) market development programs (e.g., dissemination of sales leads to local firms, participation in foreign trade shows, preparation of market analysis, and export news letters). Export services programs are often considered informational; whereas, the market development type programs are viewed as experiential.

Small firms that are not currently exporting generally give low ratings to all types of programs: government services, international trade shows, seminars or workshops, and government offices overseas (Howard and Herremans, 1988). The U.S. Department of Commerce itself estimates that some 20,000 small and medium sized firms with export potential were unable to successfully act on that potential because of ineffective federal, state and private agency assistance and promotion programs (Kathawala and Elmuti, 1990; and Rosenthal, 1989).

Trade missions, in which members of the business community along with government officials visit export market countries, are among the most widely publicized programs. Even though states describe gubernatorial trade missions as among their most successful export development initiatives, studies of their value are mixed at best. Moini (1998) found that trade missions ranked last among 16 assistance programs in terms of received or expected benefits. Exporters who had the most experience with trade missions, ranked them extremely low, indicating that trade missions were of little importance in export success (Silverman, Castaldi and Sengupta; 2002).

Studies of export development activities are conflicting. Howard and Herremans (1988) found “trade fairs” were ranked second in “helpfulness” among successful exporters from a list of 23 export assistance activities; whereas, Kedia and Chokar (1986) found that interest in trade fairs among both exporters and non-exporters ranked last among export promotion programs.

CONCLUSION FROM THE LITERATURE

In light of the complexity and contradictory character of the literature, the conclusions that can be drawn would seem to be that one:

1. Needs to evaluate the effectiveness of each program separately,
2. Must be careful on extrapolating the results to other locations and situations, and
3. We are just not sure what will work to make firms more productive exporters.

EXPORT NOW

OVERVIEW

FirstEnergy’s (FE) Economic Development Department established in 1995 an export assistance program, called EXPORT NOW, which provides direct support to small and medium sized manufacturers in Ohio, Pennsylvania, and New Jersey (see FE Service Territory Map). During the period from 1995 to 2004, FE helped 180 companies increase international sales by an estimated aggregate of $50 million to $117.6 million, following their participation in a trade mission/event. These results have been officially recognized at the state and national levels.

In 1998 and 2005, the State of Ohio recognized the program when it received the Governor’s “Excellence in Exporting Award.” The EXPORT NOW program won national recognition in 2000 by winning the “Export Trade Gold Award” from the Council for Urban Economic Development (now IEDC). In 2003, 2004, and 2005, the U.S. Department of Commerce offices in Ohio and Pennsylvania gave the program its “Export Achievement Award.”

MISSION

The overall mission of the program is to assist small to medium sized manufacturers, although the program has also helped several large industries and service related companies, with selling products and/or services into
Mexico and Canada. These markets were selected based on three factors: 1) the opportunities created for U.S. firms under NAFTA, 2) the relative ease of doing business in these countries that share a common border with the U.S., and 3) FE’s belief that after mastering the learning curve for selling to our NAFTA partners, companies will be better prepared to sell to other international markets.

The mission behind the program is unique in that it accomplishes both a corporate and community economic development goal. First, in the corporation’s view, the more demand that can be created for products/services sourced from FE’s service territory, the more electric energy companies will consume in production. This in turn enhances FE’s revenue and stockholder value and ties a geographically regulated utility indirectly to economic growth throughout the globe. EXPORT NOW is also seen as a valuable community economic development tool for maintaining or expanding investment and employment opportunities in the communities in which FE serves.

STRUCTURE

REP COM/Trade Mission Format – When this program was being developed, several options were looked at for providing export assistance directly to FE industrial customers. It was decided to work directly with the U.S. Department of Commerce’s International Trade Administration (USDOC). The USDOC (http://www.export.gov) has a long history of providing a plethora of services to U.S. firms wanting to sell internationally.

One channel of assistance has been what is termed REP COM and GOLD KEY trade events in particular international markets. REP COMs are horizontal trade shows, sponsored by the USDOC, geared for U.S. companies to make contact with potential sales representatives, distributors, and/or direct sale customers in an urban area or region of a particular country. These events are more trade shows in that the show itself is just one component of three days’ activities.

Another important component is outside appointments arranged for participants by USDOC staff. These GOLD KEY appointments are researched by USDOC trade specialists, housed in a U.S. embassy or consulate in the particular area where the event will be held, for a possible match based on the U.S. company’s products/services and the potential buyer’s stated wants.

Under the EXPORT NOW program, FE works directly with the USDOC officials located in Mexico and Canada to bring companies to scheduled REP COM events in Mexico City, Monterrey, Guadalajara, Toronto, and Montreal. FE then subsidizes companies that are interested in traveling to these events by partially or fully paying the participation fee the USDOC charges. This can equate to a value of up to $2,100 per company. EXPORT NOW on average takes eight to ten companies as a group to a REP COM event.

Recruiting for Trade Missions

FE has a five-pronged approach to recruiting for REP COM and GOLD KEY events:

1) targeted mailings to industrial customers located in the service territory;
2) partnering with local, regional, and state economic development groups to disseminate information about upcoming trade missions and to obtain leads on companies that might have an interest in Mexico or Canada;
3) acting as a sponsor and participating in the annual world trade conferences and seminars;
4) working with domestic USDOC offices in Ohio, Pennsylvania, and New Jersey; and
5) informing other FE employees who deal directly with customers, such as customer service representatives, about upcoming trips.
In the recruiting for companies to take to a REP COM event, FE focuses on small to medium sized manufacturers that have done little or no exporting, although several large manufacturing firms and service related companies have participated. Another evaluation criterion looked at closely is products/services offered by firms and the potential for sales opportunities to be made in the market these firms have an interest in. FE is also cognizant of, and has established, a corporate policy to help provide business opportunities to female and minority owned businesses. As such, several female and minority owned businesses have participated in trips to Mexico and Canada.

Preparing for Trade Mission Trips – Once a group of eight to ten companies has been selected to travel to a USDOC REP COM event, FE provides a range of services before the actual trip to help participants with:
1) developing sales opportunities;
2) gaining practical knowledge of Mexico or Canada’s business climate, customs, and practices;
3) appreciating cultural differences; and
4) shipping and travel accommodations.

FE provides technical assistance to the selected participants in regard to the forms and documents needed by the USDOC to begin the research phase of finding interested parties for the companies’ products/services. It also provides extensive hardcopy documentation and organizes a pre-trip seminar that addresses doing business in the country where the REP COM will be held. Lastly before the trip, FE provides information on shipping sample products/display literature and on travel associated with airline and hotel options.

FE economic development staff also travel to the REP COM with participants and assist with various items at the event. It also co-hosts a reception for participants with the USDOC during the event, at the REP COM location, to help foster informal discussions with Mexican or Canadian business contacts. This is especially important in Mexico where the culture calls for developing a level of friendship before entities move on to establishing a business relationship.

Trade Mission Evaluation and Follow-up – After a trip is completed, FE performs an extensive evaluation using two survey instruments, one provided by the USDOC and the other developed in-house. Each company is interviewed to acquire quantitative data regarding the number of scheduled appointments, qualified sales leads, agents appointed, and projected sales revenues one year and two years following the REP COM event. Likert scale measurements are then taken regarding the service FE provides before and during the trade mission.

Companies usually need additional assistance after the event. It is at this time that EXPORT NOW works directly with state development agencies and local international trade assistance centers. FE recommends then working with state and local international trade officials and their staffs after the event to assist with sales lead follow-up and other issues associated with potential business transactions.

RESULTS

EXPORT NOW was established in 1995 and the first REP COM trade mission held in December of 1995 in Mexico City. At that first event, four companies participated with FE and generated projected sales of $875,000 for the one year following the event and $2.7 million two years following the event. Overall, FE’s EXPORT NOW program has participated in 17 trips to Mexico and ten trips to Canada. From 1995 to 2004, 180 companies participated in the program and as a result of these trade missions have estimated new sales, in aggregate, ranging from $50 million to $117.6 million.

EVALUATING THE EFFECTIVENESS OF EXPORT NOW

Originally the plan was to study the impact of this program on both sales and employment; unfortunately, specific sales data for individual firms studied proved to be unavailable. Thus, the study was reduced to only the impact on employment before and after participation in this program.

On the basis of the research done of exporting, we sought to answer two questions.

Q1: Did EXPORT NOW help improve corporate performance of participating firms as a whole.
Q2: Did EXPORT NOW help improve corporate performance of small and medium-sized firms to a greater extent than larger firms.

From 1995 to 2004, 180 companies participated in EXPORT NOW. All participating companies are headquartered or have operations in the states of Ohio, Pennsylvania, or New Jersey served by FirstEnergy.
Participating businesses varied in size and other demographics, but manufacturers were the dominant group. Companies studied had annual sales from under $500,000 to greater than $500 million and employment levels from under five people to over 3,000 (See Table 2).

Aggregate data related to sales, employment, and plant/facility size was collected for all 180 companies from Harris Infosource – an online business database and Harris traditional print directories which included Harris Ohio Industrial Directory, Harris Pennsylvania Industrial Directory, and Harris New Jersey Industrial Directory. Data was collected for the period of 15 years (1990 to 2004).

Unfortunately, the sales data from the Harris directories provided only ranges and not actual figures. In order to compensate for this limitation, a telephone survey was attempted; however, the collected data was insufficient for a comprehensive evaluation of program effectiveness since it was difficult to get companies to supply sales figure at all and especially for periods dating back to 1990. For this reason, the study was limited to employment data for which accurate annual data was available. This was more than acceptable since from an economic development perspective, job creation is one of the major reasons for export promotion. Furthermore, employment levels can serve as a proxy for overall corporate performance.

In analyzing the effect of participation in this activity, PERFORMANCE (employment change) was assessed for three years prior and three years after the EVENT (participation in EXPORT NOW). The year of the event was viewed as “year t.” Corporate employment levels were collected for three years prior to year t (t-1, t-2, t-3), for year t, and for the three following years (t+1, t+2, t+3). We compared the rate of growth of employment before participation (year t-3 to year t) with the rate of employment growth after (year t to year t+3). This approach is very similar to that employed by Wagner in his 2001 German study.

For some companies in the sample, complete data for all seven years was not available. These firms were removed from consideration and only those with no missing data were considered. To minimize any effects from national or regional economic cycles, we pooled all companies regardless of what year they actually participated in EXPORT NOW.

The result was completed data for 100 companies. These firms were representative of all major industries in Ohio, Pennsylvania, and New Jersey and ranged in employment from under five people to more than 3,000 employees.

For the overall sample, the rate of employment growth before the international trade development visit was actually higher than after, 8.48 compared to 1.80 percent. Clearly the program did not improve the performance of the sample as a whole.

What was the effect on small and mid-size firms? To answer this question it was necessary to evaluate the employment trends by firm size and for the combined group of all small and medium sized businesses (See Figure 1). This allowed for an understanding of which groups seemed to benefit from the program. To do this, the sample was segmented into five groups according to their sales size (Table 2). Table 3 reports the results for each category. These data reveal that small to medium
size firms (sales $1 million to $25 million) had the biggest growth in employment after their international visit. The employment growths before participation in the event were 5.43, -5.87, and -13.20 percent for small, low medium, and medium-sized firms respectively. The employment growth rates after participation were significantly higher: 10.30, -1.02, and 5.44 percent respectively. For each category, employment performance was improved: a larger positive growth rate, a lesser negative growth rate, and a change from a negative growth rate to a positive one (See Figure 2).

DISCUSSION

It is obvious from the above results that small and medium size enterprises (SMEs) that participated in the EXPORT NOW program increased employment. Overall, SMEs went from declining employment of nearly 7 percent to an increase of 4 percent. This suggests significant increases in sales and production. Small firms gained the most benefits from the structured international visitation program because their employment increased significantly. This group’s employment growth went from 5.43 percent before the trip and 10.30 percent after, nearly double.

Employment in medium sized firms also grew significantly. This group of companies’ employment had been decreasing continuously before they participated in the program, from 1,674 in year (t-3) to 1,453 in year (t), which resulted in a negative growth percentage change of -13.20 percent. After participating in the program, this trend totally reversed. Employment grew from 1,453 in year (t) to 1,532 in (t+3). This was a positive growth percentage change of 5.44 percent. Collective results for all small, low medium, and medium sized firms seem to confirm that the international visitation positively affected the performance of small to medium sized firms the most.

As the business environment continues to become increasingly globalized and competitive, Fortune 500 type corporations have the capital resources and internal knowledge to explore potential opportunities around the world. Small to medium sized firms, many of which do not have the resources and internal expertise to investigate global expansion, could be helped by export assistance programs. These programs can act as a catalyst to move small to medium sized firms to think more internationally and hopefully act on opportunities for growth. It is important for these businesses to understand how export assistance programs can help them and how they can make the most of the opportunity to utilize the programs. FirstEnergy’s EXPORT NOW program demonstrates that small to medium sized manufacturers, open minded about international trade and willing to explore opportunities, with assistance, can find them and create jobs in the process.

It is also crucial for export assistance providers such as the federal government, states, and private organizations to learn what formats work best and which companies and industrial sectors actually benefit from such programs. This knowledge will in turn help providers allocate funds and activities more effectively in order to help potential exporters conduct international business more proficiently.

| Table 3 Comparison of employment three years before and after international visitations |
|---------------------------------|----|-----|-----|-----|-------|-------|-------|-------|-------|-------|----|
| Size 1 - Small 1MM-4.9MM | 5.43% | 781 | 718 | 776 | 850 | 757 | 821 | 835 | 801 | 10.30% |
| Size 2 – Low Medium 5MM-9.9MM | -5.87% | 1,440 | 1,465 | 1,433 | 1,422 | 1,379 | 1,407 | 1,374 | 1,365 | 1,382 | -1.02% |
| Size 3 - Medium 10MM-24.9MM | -13.20% | 1,645 | 1,674 | 1,650 | 1,610 | 1,453 | 1,584 | 1,523 | 1,532 | 1,546 | 5.44% |
| Size 4 – High Medium 25MM-49.9MM | 16.59% | 472 | 458 | 479 | 479 | 534 | 495 | 515 | 540 | 517 | 1.12% |
| Size 5 - Large >50MM | 26.13% | 3,170 | 3,170 | 3,720 | 2,920 | 3,620 | 3,575 | 3,805 | 3,797 | 3,726 | 4.89% |
| Small - Medium Firms | -6.95% | 3866 | 3857 | 3859 | 3882 | 3589 | 3738 | 3718 | 3732 | 3729 | 3.98% |
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