

# 3 Evaluation of SME Capabilities

## 3.1 Introduction

This chapter aims to evaluate the capabilities of the SME sector in developing export competitiveness. It builds on an enterprise survey of Mauritian SMEs in textiles, printing and publishing and IT. Both face-to-face interviews and a questionnaire were used to collect the requisite information (see Appendix 1).

Capabilities are identified in relation to a) competences in marketing, design, use of technology and human resource management; b) strategy: a company's choice of target markets and its positioning within those markets; and c) managerial characteristics: head of the enterprise's commitment, and his or her orientation and attitude to exporting (see Appendix 2).

## 3.2 Competences

Competences are defined as capabilities at the functional level of an enterprise. Here, we are looking at the understanding and use of the various elements of the marketing mix, the use of design and technology and the management of the human resource. These are considered in relation to each of the three industry sectors surveyed.

Obviously, functional level activities should primarily serve to implement strategy. A discussion of the capabilities of SMEs to develop appropriate strategies will follow this section.

### 3.2.1 MARKETING

Marketing capabilities at the functional level imply the ability to use effectively the elements of the marketing mix. Specifically, these relate to decisions on product, price, promotion and distribution.

#### 3.2.1.1 Textiles

*Product* – Ten of the seventeen firms surveyed are producing casualwear, predominantly T-shirts and shorts from cotton weave and cotton jersey. Two companies are specialising in baby and childrenswear, one in swimwear, two in lingerie and one in woven labels. Another is a tailor producing uniforms for hotels and some custom suits for men and women.

Samples of products from eight companies were seen. Apart from two firms, product

quality is low relative to European expectations. One manufacturer commented that his products were too high quality for the domestic market, but in our view they would not be competitive in sophisticated American or European markets. Design content is minimal and products lack differentiation. The same T-shirts and shorts are available everywhere in the world. The range of fabrics used is limited.

Product ranges tend to be far too broad leading to very short production runs. The inclination is to spread risk by producing lots of different types and styles of garments, rather than specialising and focusing on specific customer segments. Only two companies have a clear picture of their target consumer. Understanding of the concept of a brand was lacking in most cases.

*Pricing* – Most companies were trying to compete on price and calculated price on the basis of cost-plus. This method calculates the cost of inputs and adds a predetermined profit margin. The approach is consistent with low value-add, but the relatively high labour costs in Mauritius, compared with increasingly important competitors such as those in Sri Lanka and Vietnam, precludes this as a useful competitive strategy. Higher quality, differentiated products, would enable the use of a perceived-value pricing strategy – where prices are set on the basis of the value perceived by customers, and which invariably delivers higher profits.

*Promotion* – The table below shows the use of various promotional tools by the thirteen textile companies who responded to our questionnaire.

**Table 3.1:** Use of Promotional Tools in the Textile Industry

	Number of companies			
	Use extensively	Use moderately	Hardly use	Don't use
Trade fairs	2	2	1	8
Advertising	1	5	1	6
Brochures/literature	1	3	1	8
Professional marketing services	2	1	2	8
Personal selling	7	2	2	2
Direct marketing/direct mail (a)	5	1	1	4
Web page/email (b)	0	3	0	9

Notes: (a) Two respondents left this question blank.

(b) One respondent left this question blank.

*Trade fairs* are used extensively by both large and small firms throughout the world. They provide an opportunity for sellers to demonstrate their products, to meet buyers face-to-face, and to gain competitor intelligence.

The major forms of *advertising* are TV or radio commercials, or print, in either consumer or trade press. Most SMEs would find advertising in trade press the most affordable and effective.

**Brochures and other forms of corporate literature**, such as clothing tags and labels, and product guides are a cost-effective way for companies to make customers aware of their product range, as well as to support the brand proposition.

**Professional marketing services** are delivered by marketing consultancies and can range from developing a strategic marketing plan to implementing promotional activities, such as advertising or designing a brochure, providing information on markets, fostering contacts with potential buyers, or acting as agents.

**Personal selling** is a promotional method that utilises a traditional salesforce to identify individual customers and make sales.

**Direct marketing** is a means of communicating directly with targeted customers using a range of techniques of which specially designed mailings and telephone selling are the most appropriate for the SME sector. Increasingly in business-to-business markets, **relationship marketing** can be adopted, whereby the seller develops a close interpersonal relationship with individual customers through the use of activities such as hospitality, regular direct telephone or email contact, joint product development, etc.

Increasingly a **web site** is considered to be essential for any business, but is particularly affordable for the smaller enterprise. **Email** accessibility, both to maintain relationships with existing customers and to receive enquiries from new customers is also becoming a critical tool.

Small businesses need to maximise their use of promotional tools, utilising as wide a range as is economically feasible. Much use is made of the major promotional tools by our survey respondents. There is an overemphasis on personal selling, which is the most expensive tool, whilst the most targeted and cost-effective approaches, which are also the ones that are most appropriate for export initiatives, such as direct marketing and the internet are virtually ignored.

Marketing expenditure as a percentage of turnover is stated by nine companies as follows:

**Table 3.2: Marketing Expenditure as a Percentage of Turnover in the Textile Industry**

Company 1	0.00%
Company 2	0.00%
Company 3	0.57%
Company 4	0.63%
Company 5	1.00%
Company 6	1.79%
Company 7	2.00%
Company 8	3.70%
Company 9	0.42%
<b>Average</b>	<b>1.12%</b>

These figures are low by any industry standard and would cast doubt on the respondents' assertions of "extensive use" of promotional tools.

*Distribution* – The majority of garment manufacturers are making sales directly to retailers or consumers. Only four use agents and five use wholesalers. Since success in exporting is largely a result of developing contractual relationships with agents and distributors, SMEs in Mauritius are poorly placed to develop exporting capabilities.

Access to overseas markets was cited as a common barrier to exporting with only one company having any formal ongoing arrangements with agents or distributors. For another company, export orders were achieved when visitors from Réunion and Seychelles, on a combination buying/holiday trip, saw their products in a retail outlet. Yet another company uses door-to-door salesmen to make local sales, but its export sales depend on overseas buyers making the first contact.

Overall, the strategic importance of developing channels to market appears to be largely unrecognised within the SME textile sector in Mauritius and the process, if it happens at all, tends to be ad hoc and reactive.

### **3.2.1.2 Printing and Publishing**

*Product* – The range and type of products produced by companies in this sector is significantly less homogeneous than those within textiles. Two of the firms we interviewed and another five who responded to our questionnaire could be described as jobbing printers. These companies produce relatively simple corporate stationery such as letterheads, brochures, posters, menus, plus a limited amount of packaging. They operate on a reactive basis, responding to the demands of their customers, without any attempt to specialise in a specific product area. This also means that print runs tend to be short.

Overall, the quality is low, with one company in particular producing exceptionally low quality output. However, it should be borne in mind that print quality is highly dependent on technology and the two companies in this category that we observed are using mostly outdated equipment.

Another printing company has chosen to specialise in print for the textile industry. This includes labels and tags, swing tickets, adhesive stickers and some stationery. With a clearly defined market, this company works closely with its customers to determine product specification and its quality is consistent with the needs of the market. It can be considered a non-exporting enterprise as only 0.02% of its sales derive from overseas, specifically Madagascar, and these sales are derived from sub-contracting arrangements by Mauritian firms.

Only one company we saw in the traditional printing sector was operating at the high-end. This firm produces books, magazines and brochures of exceptionally high quality, using state-of-the-art technology. Currently, 22% of its output goes abroad, but, in our view, this is the only traditional printer that has the potential to become a major exporter. That it has not done so to date appears to be owing to internal management problems.

All of these firms, even the smallest, have developed some degree of computer-based pre-press capability.

Of the three other companies we interviewed in the printing and publishing sector, two are wholly owned by French parent companies and operate as pre-press and pre-media production units. Neither initiate any of their own sales and have no intention of doing so.

The last is a single entrepreneur who has catalogued the total Mauritian legal framework, authored it on to one CD-Rom and targeted lawyers. His gross profit margins are so high that he said he is embarrassed to tell us what they are. Future plans of his include producing a CD of Mauritian fauna and flora. This is a very simple but brilliant idea, using low-cost technology, and although this particular businessman has no personal inclination to extend his business overseas, it is an example of how a good product idea, targeted at a clearly definable market, can form the basis of a successful domestic and export business.

*Pricing* – All of the traditional printers stated that they were competing heavily on price, and this is consistent with the low value-add that most of them were demonstrating. Printing tends to be very price sensitive and a sufficient contribution to fixed costs is usually achieved through producing very high volumes. One company complained that predatory pricing by large printing houses is a major problem. Another cited “unfair competition”, although did not elaborate on this.

Although the one company producing very high quality print is better able to charge premium prices, profits from exports are severely reduced by the cost of air freight. When asked how significant an obstacle is the cost of air and sea freight, all of the printing companies rated it at least three, on a scale of 1 to 5, where 5 is the greatest obstacle, and more than half rated it at 5.

In the case of the two repro houses, (those involved in pre-press and pre-media) pricing appeared to be determined by the parent company on the basis of cost. Here, the objective is to minimise costs through the effective management of the production process.

Only the CD authoring company was able to use a perceived pricing strategy, where price is related to the value perceived by the customer, rather than based on cost-plus or competitor pricing.

*Promotion* -Eleven companies in the printing and publishing sector responded to the question on use of promotional tools.

**Table 3.3:** Use of Promotional Tools in the Printing and Publishing Industry

	Number of companies			
	Use extensively	Use moderately	Hardly use	Don't use
Trade fairs	1	3	0	7
Advertising	0	7	0	4
Brochures/literature	1	3	1	6
Professional marketing services	1	2	1	7
Personal selling	10	0	0	0
Direct marketing/direct mail	4	4	0	3
Web page/email	0	2	1	8

As with textiles, personal selling is the promotional tool used most extensively. It is especially surprising that six companies do not use brochures at all, particularly as these would act as an example of the work they can produce, and also that eight companies make no use of a web page or email, when most of the firms already have the computer infrastructure in place. Overall, the profile of promotion is similar to the textile industry, with relatively little use being made of the total range of tools.

Marketing expenditure as a percentage of turnover was declared by six companies as:

**Table 3.4:** Marketing Expenditure as a Percentage of Turnover in the Printing and Publishing Industry

Company 1	4.50%
Company 2	0.68%
Company 3	0.11%
Company 4	0.00%
Company 5	4.29%
Company 6	0.26%
<b>Average</b>	<b>1.64%</b>

Company 1 makes most use of all the promotional tools, whilst Company 5 is the CD-Rom company, operating as a direct marketing organisation. Overall, the spend on marketing is very low indeed.

*Distribution* – Of thirteen companies questioned, seven are making 100% of their sales direct to end-users, most of these being corporate clients. The two French-owned companies are also making sales directly to the parent companies, 100% in one case, and 90% in the other. Only four companies are using agents, wholesalers and retailers to help with their distribution. Two of these are active exporters, exemplifying a known correlation between export capability and use of intermediaries.

### 3.2.1.3 IT

*Product* – Activities that fall within the IT sector are even more diverse than in printing and publishing. Of the five companies researched, the following products or services are being offered:

**Table 3.5:** Products and Services Offered by Respondents in the IT Industry

Company 1	Computer hardware
Company 2	Call centre
Company 3	Computer hardware, consumables for photocopiers, projects (software and services)
Company 4	Software programming
Company 5	Software development

Three are active exporters. The firm engaged in software programming was established as a wholly-owned development department of a UK parent, utilising the lower labour costs of Mauritius. The fifth is a company set up expressly to develop software for the Mauritian sugar cane industry.

Because of the diversity of “product” and the limited size of the sample, it is difficult to comment on how companies are using this element of the marketing mix. However, consideration of the development of the IT industry in Europe and the US shows a shift from the dominance of hardware, through software, to IT services. As computer hardware diffuses through the corporate and individual population, the price comes down and added value begins to be represented by software. This, in turn, becomes more commoditised and is replaced as a value-add proposition by the delivery of IT services.

The development of one company in the sample demonstrates this shift and indicates a good understanding of market forces. Company 3 started by importing and selling Olivetti computers on the domestic market. This proved unprofitable and sourcing of hardware was switched to buying PC-clones from Asian countries. Financial losses forced them to review their product strategy and they realised they lacked market focus. The company is now divided into three business units, one of which – IT projects – is recognised as offering the biggest growth opportunity. The two other units should provide the means to invest in the development of the projects business. In due course, they intend to create a reseller network to deliver computer hardware and photocopier consumables, so that they can focus on their business-to-business activities.

Small and medium enterprises are well suited to the IT industry. Competition appears not to be intense, and with careful strategy choices, IT represents a substantial opportunity for SMEs in Mauritius. This will be discussed later in more depth.

*Pricing* – No information was available on how these IT companies price their products or services. Pricing for hardware and software is generally very competitive and prices are likely to be determined on a cost-plus basis with very low margins. The pricing of software development and services will be based partly on the cost of labour,

but with the additional opportunity to adopt a perceived value pricing strategy.

*Promotion* – Statistical figures on promotional expenditure as a percentage of sales were available for only Company 1, selling computer hardware, 3.45%. Data on use of promotional tools was available for only two companies.

**Table 3.6:** Use of Promotional Tools in the IT Industry

	Number of companies			
	Use extensively	Use moderately	Hardly use	Don't use
Trade fairs	1			1
Advertising	2			
Brochures/literature	1	1		
Professional marketing services			1	1
Personal selling	1			1
Direct marketing/direct mail	1	1		
Web page/email	1	1		

Overall, these two companies are making more extensive use of all the tools compared to textiles and printing and publishing.

It was clear from our in-depth interviews that Companies 4 and 5, with their captive markets, have no need to use forms of promotion other than developing and maintaining good customer relationships. Company 3 stated that they use no promotion as word of mouth has been sufficient for them so far. However, if they wish to further penetrate overseas markets, they must develop a promotional strategy.

*Distribution* – Company 1 makes full use of the range of distribution channels available, selling 50% direct to end-users, 20% each to wholesalers and retailers, and 10% through agents. As mentioned before, Company 3 is planning to integrate forward by setting up its own reseller network, retaining some of the profits and reducing some of the costs of distribution. For the remaining companies, distribution in this sense has no relevance.

### 3.2.2 DESIGN

Although design is generally considered to be a subset of marketing in its role in product development and promotion, here it is given prominence because of its potential to add value. This is particularly relevant to the textile industry, although design is also important in printing and publishing. For the IT industry, graphic design can play a part in promotion, but apart from software design which is not considered here, design is not an integral element of its proposition. IT, therefore, is excluded from this analysis.

The quantitative measurements we can apply to SMEs are the number designers used. This gives an indication of the company's commitment to design, but can in no



way measure the quality of design output. To assess this, where possible we have visually observed companies' products.

### 3.2.2.1 Textiles

Three textile companies use no designers at all. Interestingly, two produce babywear, so they may assume that this type of product does not require a professional design input. One of these companies was personally interviewed and product observed, and it is our view that, although the babywear is functional and looks presentable, good design content is noticeably lacking.

Two garment manufacturers each employed one full-time, but untrained, designer. Neither of these were interviewed personally, so we cannot assess the quality of the design.

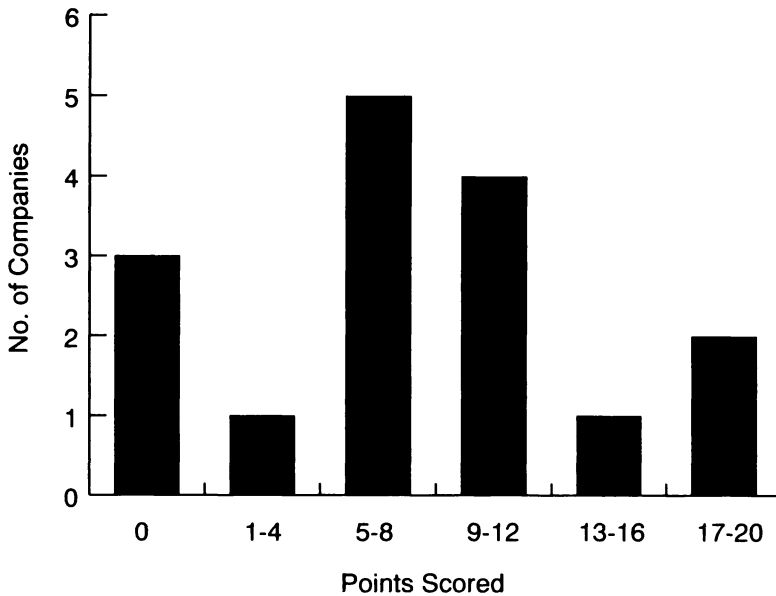
In order to rank companies by their use of designers, we have designed a crude scoring system as follows:

**Table 3.7:** Scoring System for Design

Each untrained designer used	1 points
Each trained designer used	2 points
Each part-time designer	1 point
Each full-time designer	2 points
Each freelance designer	1 point
Each in-house designer	2 points
Each design consultant	3 points

So, for example, a company using 1 full-time, in-house trained designer, will score 6, made up of 2 points for the designer being full-time, 2 points for the designer being trained, and 2 points for the designer being in-house. A firm using 1 freelance trained designer will score 3 points, made up of 1 point for the designer being freelance and 2 points for the designer being trained. This scoring assumes that the use of full-timers represents more of a commitment than using part-timers, and using in-house designers more of a commitment than using freelance.

**Figure 3.1:** The Use of Designers in Sixteen Textile Companies



It can be seen that two companies are making considerably more use of design than the others. One of these enterprises was visited by the mission and it is clear from seeing their products that their use of design has added significant value. This company has been successful in selling into European markets, but interestingly, the other is a non-exporter. Not having seen the products of this second company, it is impossible to say whether their use of design is sufficiently good for them to be competitive in sophisticated markets.

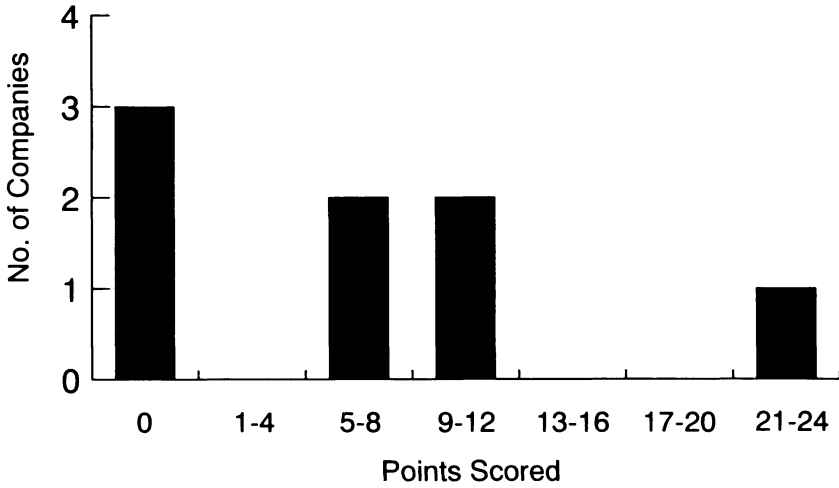
Apart from these two, quality of design was most pronounced in the two companies producing specialist products, swimwear and lingerie. Another firm was using a designer to produce only surface designs for T-shirts, although these were interesting and effective. Elsewhere, designers appeared to be designing functional clothing, but with little flair or originality.

### 3.2.2.2 *Printing and Publishing*

Using the same scoring method, the use of designers in the six printing and publishing enterprises for which we have data, is shown below.

A similar skewed distribution to the textile industry can be seen, although the differential between the minimum and maximum use of design is greater. This is accounted for by the high-end printer described earlier employing 6 trained designers,

**Figure 3.2:** The Use of Designers in Eight Printing and Publishing Companies



2 full-time in-house and 4 freelance. Their effectiveness is evident in the quality of the output produced by this company.

### 3.2.3 TECHNOLOGY

Whilst it is generally accepted that companies need to make the best use of current technology to become or remain competitive, the nature of that technology is changing. In many industry sectors, the sources of competitive advantage are shifting away from traditional capital equipment intensity and towards the effective use of processes, people and information.

In each of the three sectors we studied, the nature, role and exploitation of technology differs considerably.

#### 3.2.3.1 Textiles

World Bank (1994) identifies some critical issues relating to the competitiveness of garment manufacturers in the EPZ:

- Although around half of firms in the apparel industry operate in the low-end segment where price is the major source of competitive advantage, relatively high labour costs make this market position untenable.
- Upgrading into mid-market products is a viable strategy, but is dependent on enhancing design, quality and delivery.

- Relevant technologies include: CAD/CAM systems, computerised sewing/stitching machinery, automated cloth-handling systems, automation of post-CMT processes, group work systems, effective quality control, management information and production control systems.

The study identifies that in every relevant technology Mauritian firms are lagging behind developed countries. Competing in international markets requires levels of technology that can deliver continuous improvements in product quality and design, productivity, flexible manufacturing and quick response. Without this technology, the ability of Mauritian SMEs to compete in international markets is severely limited.

The results of our quantitative survey and our physical observations of the use of technology in the garment manufacturers we visited, would suggest that the SME textile sector is even less competitive.

*Investment in plant and equipment* – Of seven textile companies that quantified the change in value of their plant and equipment over the last twelve months, five had made no investment at all, one had increased value by 15% and another by 18%. Responding to the question of how significant a problem is the age of their machinery, three enterprises say it is a highly significant problem. Four out of eight firms state that age is not significant at all, yet these are the same companies that have not increased their investment in plant and equipment during the last twelve months. It may be that some of these firms have simply replaced old equipment without increasing the value of their investments, or some may have made substantial investment more than twelve months previously. Overall, it can be concluded that investment by SMEs in upgrading equipment is lower than required by the industry sector. A 1996 report into the technological competence of SMEs in Mauritius,<sup>1</sup> found that as much as 20% of SMEs had made no investment in new equipment or upgrading of current equipment within the last five years.

*Maintenance* – Field observations of eight garment manufacturers show that the majority are producing simple, low value-add products using relatively unsophisticated, standardised machines. These machines have a long working life, are easy to maintain and spare parts are readily available. This would explain the insignificance of machine age, and the responses to questions about the difficulty in getting spare parts and in maintaining equipment. Three out of nine companies say that getting spare parts was no problem and only one says that it is a highly significant problem. Maintaining equipment is hardly a problem for four out of nine companies, whilst for three it is moderately significant, and for only one it is a highly significant problem.

Only two companies are producing technically difficult products which require more sophisticated machinery: in one case, swimwear and in the other, lingerie. Neither company reported problems with the age or maintenance of their equipment. Rather, their major difficulties were the acquisition and retention of appropriate skills.

*CAD/CAM systems* – In our observations, one company producing printed T-shirts

<sup>1</sup> Dubois et al., (1996)

was using CAD to generate designs. Another company uses a computerised system for pattern generation and cutting. None use a fully integrated CAD/CAM system.

*Computerised sewing/stitching* – Virtually all firms use basic sewing machines.

*Automated cloth-handling systems* – Only one company has a semi-automated handling system. The rest are still using the traditional “bundle” system. This supports the findings of Lall and Wignaraja (1998).

*Automation of post-CMT processes* – Pressing, folding and packaging of finished garments is conducted manually throughout.

*Group work systems* – All firms, except one, use the assembly line system.

*Effective quality control* – Although all enterprises surveyed claim that they have quality control systems in place, only one has any type of formal system or documentation. This same company is the only one that is working towards ISO 9000. Quality control in the other organisations is achieved through informal visual checking by supervisors.

*Management information and production control systems* – There is little evidence of management information systems to monitor cost, inventory and production. It is likely that most SMEs do not know the exact profitability of their various product lines, do not understand issues relating to inventory and have no mechanisms for production planning.

*Use of technical consultants* – Of nine companies asked how often they used foreign technical consultants in the last five years, five had used no consultants at all, one had used consultants once, another four times, one company ten to twelve, and another stated that it had used consultants “a lot”. Technical consultants are used primarily to solve production problems.

It is apparent that, in the majority of cases, SMEs in the garment manufacturing sector are using outdated, inefficient and ineffective technology, both in terms of equipment and processes.

### ***3.2.3.2 Printing and Publishing***

Printing and publishing in the developed world has undergone major changes over the last twenty years. The printing industry has segmented by product, e.g. newspapers, books, brochures, and has concentrated at the top-end owing to the increasing requirement for expensive capital equipment. Most traditional high-street printers serving local communities have turned themselves into copy shops.

The repro house, operating as the intermediate stage between design and print, has been absorbed and virtually eliminated by printers who have developed pre-press capabilities at all levels. Computerisation has been instrumental in integrating the different stages of the process, so that a design house or publisher can now output on-line and transmit directly by EDI (Electronic Data Interchange) to a printer who carries out the pre-press, print and post-press activities.

The main sources of international competitive advantage in the printing and publishing sector are:

- Seamless vertical process integration and rapid data transmission.
- High quality/low price proposition with the ability to produce in very high volumes.
- Guaranteed, fast delivery dates.

All of these sources of advantage depend on the effective use of state-of-the-art technology. Of the three industry sectors studied, capital intensity to achieve competitive advantage is highest in the printing and publishing sector, especially in traditional printing. Quality is directly related to the degree of technical sophistication of the capital equipment, the availability of appropriate skills, and effective production management and control.

A consultancy report on the Mauritian printing industry<sup>2</sup> explored the state of the industry in detail. Four of the companies we researched were also studied in this report. Of the remaining five printing companies we studied, we interviewed four that fall into the category of very small, domestic operations.

Our findings totally support those of the 1998 Commonwealth Secretariat report. In terms of technology capabilities, we too found that:

- Printing machinery is outdated
- Quality control is often poor. However, one company in our survey is already ISO 9000 registered, one is due to complete by the year 2000, and one is in the process of preparation.
- Pre-press capabilities exist and are generally adequate.

*Use of technical consultants* – In addition, we asked our sample how often they had used foreign technical consultants in the last five years. Of eight respondents, five do not used any at all. One firm used a consultant once, another three times, yet another used them “several” times.

### 3.2.3.3 IT

Despite the IT sector operating within a high technology environment, in most cases the actual technology used is relatively low-cost and readily available. The notable exception in our sample is the call centre that processes gambling bets from the US. Even here, the value of equipment is less than 1% of turnover.

The overarching problem facing IT companies is the cost of telecommunications, particularly for those transmitting data electronically overseas, and for all companies, there is a lack of appropriate skills.

<sup>2</sup>Commonwealth Secretariat (1998)

### 3.2.4 Human Resource Management

The strategic and operational importance of human resource management is now recognised worldwide. Techniques and practices to promote work motivation and productivity, organisational development and change strategies have enabled organisations to maximise employee effectiveness and to deliver competitive advantage in both domestic and international markets.

SMEs all over the world lag behind in these developments. This is partly a function of the particular structures and cultures of small businesses as they are determined by the nature of the owner-manager or entrepreneurial role. We shall discuss this later in the chapter. Additionally, the constant lack of resources often works against the adoption of progressive human resource policies, which are perceived to be expensive and time-consuming.

Within the time-scale of this study we could not assess HR approaches in any depth. Nor are we qualified to ascertain the impact of ethnic hierarchies and cultural responses on the management of people at work. Therefore we have, adopted some simple measures of human resource management. These include investment in training as an indication of management's commitment to its workforce; the degree of absenteeism and levels of staff turnover as measures of employee commitment; wage rates and output per worker to measure productivity; and the education of employees as a measure of level of skills. We have also included a short section on our impressions gained during our visits as to the "feel" of the culture of the company.

#### 3.2.4.1 Investment in Training

Data on sixteen companies was available. The results are shown in the table below.

**Table 3.8:** Investment in Training as a Percentage of Turnover

Spend on training as % of turnover	Textiles	Printing and publishing	IT	Total
0%	3	5	0	8
<1%	3	1	1	5
>1% – <2%	1	0	1	2
>2%	1	0	0	1
<b>Total</b>	<b>8</b>	<b>6</b>	<b>2</b>	<b>16</b>

Although the sample is small, particularly in the printing and publishing and IT sectors, it is interesting that these two industries are the least willing to spend money on training despite their a major problem being a lack of available skills.

When asked how difficult it is to find the appropriate employee skills, where 1 is the least problem and 5 is the biggest, the following responses were given by 23 companies.

**Table 3.9:** Significance of the Problem of Finding Appropriate Employee Skills

Significance of problem	Textiles	Printing and publishing	IT	Total
1	0	0	0	0
2	2	2	1	5
3	3	2	0	5
4	2	1	1	4
5	4	3	2	9
Total	11	8	4	23

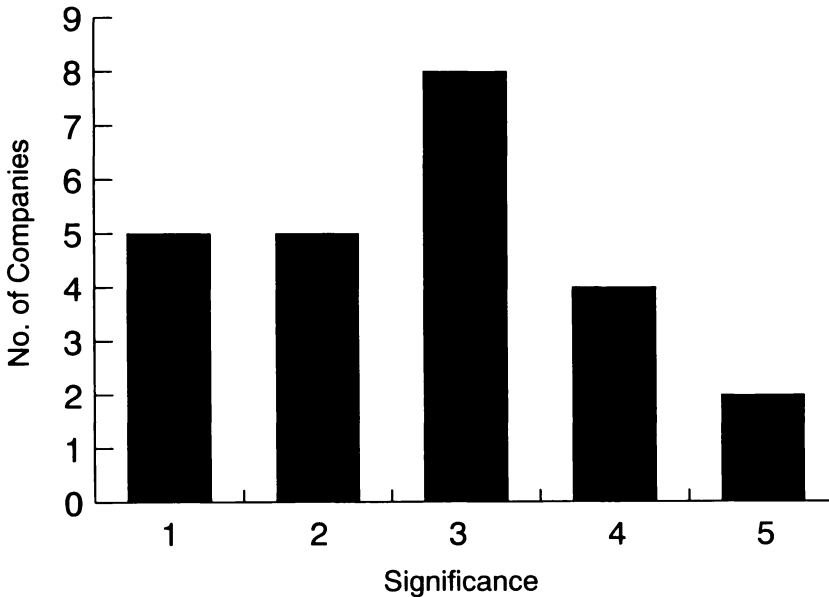
Overall, investment in training is pitifully low.

### 3.2.4.2 Absenteeism and Staff Turnover

Absenteeism is claimed to be a major problem throughout industry in Mauritius.

In our survey, 24 companies responded to the question: “How significant a problem is absenteeism in your business?”, where 1 is least significant and 5 is most significant. The results are shown below.

**Figure 3.3:** Significance of Problem of Absenteeism



Of the five companies that rated absenteeism as least significant, one is an IT company and, another, one of the high-tech printing companies, both with professional management in place; one is a garment manufacture enterprise operating highly progressive management



practices, and two are in printing. Given its more difficult working conditions, it is not surprising that the textile industry finds absenteeism more of a problem.

It is surprising that only two companies ranked absenteeism as highly significant, despite the widespread awarding of attendance bonuses. Admitting a high level of absenteeism may be perceived by the responding manager as a sign of weakness or failure.

However, it should be recognised that absenteeism may be partly a function of the cultural characteristic of Mauritius, which could be categorised as “high collectivism”, a term coined by Geert Hofstede in his seminal work on the impact of culture on organisational behaviour<sup>1</sup>. Here, the group takes precedence over the individual. Work is less a means of achieving individual job satisfaction and more a means to maintain family. This perspective has major implications for the commitment of employees to their jobs and their performance of task roles. Employees, particularly women, work hard for their families over the weekend. It is perhaps better to do more for the family and take Monday off to recover, than to put more effort into the job.

Staff turnover poses a significant problem in SMEs within the textile industry. In our discussions with interviewees, respondents complained that employees leave to work for larger companies as soon as there are vacancies, or shortly after receiving training. Wages and working conditions in larger companies are generally better than in the smaller enterprise. These findings are supported by Lall and Wignaraja (1998) report and our study too confirms that high staff turnover is a major disincentive for SMEs to invest in staff training.

Staff turnover appears to be significantly less of a problem in the other two industries we studied.

### 3.2.4.3 Wage Rates and Employee Education

As expected wage rates are heavily dependent on the industry sector, with textiles offering the lowest average rates to unskilled workers. Graduates appear to have the best opportunity to maximise their income within the IT industry.

The figures in the table below should be treated with some caution. The wide variation in wage rates for skilled workers, technicians and engineers could mean that respondents place technicians or engineers in the category of skilled workers

**Table 3.10:** Average Monthly Wage in Mauritian Rupees

	Unskilled workers	Skilled workers	Technicians	Engineers	Other graduates
Textiles	1,500 – 3,800	3,500 – 15,000	7,000 – 15,000	5,000 – 25,000	16,000
Printing /publishing	2,000 – 6,000	3,000 – 15,000	6,000 – 24,500	10,000	12,000 – 18,000
IT	3,700	4,500 – 8,000	7,200 – 20,000	10,800 – 25,000	

<sup>1</sup> Hofstede (1980)

Of seven garment manufacturing companies providing quantifiable data on wage rates, only three companies employed staff above the category of skilled workers, and only one employed staff in the “other graduate” category. SMEs surveyed in the other two industries employed several staff as technicians or engineers, and as could be expected, graduates were employed most intensely in the IT industry.

#### 3.2.4.4 Impressions of Organisational Culture

The culture of an organisation is a major determinant of employees’ performance. An individual’s experience of their working conditions, the friendliness of colleagues and management, the general “feel” of the place can serve either to motivate or demotivate. We have not carried out a comprehensive analysis of organisational culture in the firms we visited, nevertheless, our first impressions can be useful.

*Textiles* – One firm implements policies that would be highly progressive in any cultural context. Garment makers are organised into teams, with each choosing a team leader. Group bonuses are given for meeting or exceeding production targets. There is a “Workers’ Council” meeting every three months. Absenteeism is dealt with in an innovative manner. “Red Periods” are times when everybody is expected to exert an all-out effort and individuals are penalised if absent without a good reason. During “Green Periods”, a reasonable level of absenteeism is tolerated. The owner-manager described how she copes with extended absenteeism associated with weddings: “On wedding days I expect everybody to work in the morning. Then, in the afternoon, we all go to the wedding, including me.” This enterprise is situated in the middle of a small village and makes a major contribution to village life – to the school, and towards buildings and transport.

In contrast, we visited another factory, also situated in a very small town. On entering, we were affected by fumes. Several workers were printing T-shirts without any extraction, even though extractors were installed, and the air throughout the building was thick with fumes. When we asked about this, we were told that sometimes they turn on the extractors, but not today. In this same factory, women garment makers were hemmed into such a small space that they could not turn around or move their chairs. If they needed to go to the toilet, they would have to ask the person in the next row to get up.

These two examples demonstrate extremes of organisational culture and approaches to human resource management. Productivity per employee in both these firms is lower than average for the companies we surveyed, but the former employs more people, and has a much higher level of exports and cites absenteeism as a negligible problem. It is generally a more successful company.

*Printing and publishing* – We were shown around a number of printing works. In one, we sensed a paternalistic culture, with the owner-manager presenting himself as a “guardian” of his workers. Whether his employees agree with this we cannot tell without talking to them. We were also taken around one of the pre-press houses. The building is new and large, with much of the space still unoccupied. Staff were working on the

latest computers in pleasant surroundings. The overall air was one of professionalism.

*IT* – As we were not shown around any of these companies, we cannot assess this culture.

### 3.2.5 CONCLUSIONS

Table 3.11 summarises our findings on the competences of the SME sector in Mauritius by the industry sectors examined.

**3.11: Summary of competences**

	<b>Textiles</b>
<b>Marketing</b>	
• Product	Product quality generally low Products lack differentiation Ranges too broad Limited use of branding
• Price	No use made of strategic pricing
• Promotion	Very low spend on promotion Overemphasis on personal selling Virtually no use made of direct marketing
• Distribution	Few arrangements with agents or distributors Underdevelopment of marketing channels
<b>Design</b>	Generally, design under-utilised Designers not integrated into business processes Lack of skills in setting design briefs and managing design projects
<b>Technology</b>	Outdated production technologies Weak in production management and materials handling Few management information systems Little use of technical consultants
<b>Human resource</b>	Investment in training low Major lack of employee skills Absenteeism a significant problem Staff turnover very high Low wage rates Low levels of employee education Culture sometimes repressive

### 3.2.5.1 Marketing

Our general impression of the marketing capabilities of the SMEs we researched is that very few of them have clear ideas of the role of marketing in their business. Little evidence was found of companies having a clear marketing strategy. Exceptions were in some of the more high-tech businesses, or in those whose activities and focus are dictated by a parent company. Since marketing strategy determines the nature of the marketing mix, we conclude that decisions on product, price, promotion or distribution

<b>Printing and publishing</b>	<b>IT</b>
Jobbing printers: quality generally low; non-specialised Specialists: quality moderate to high Pre-press: high quality, clearly defined proposition	Products and services offered too diverse to comment on product or service range, quality, etc
Heavy price competition where value-add is low	No information on pricing
Low spend on promotion Limited use of the total range of promotional tools	More varied use of promotional tools, particularly electronic media
Limited use of marketing intermediaries	More varied use of marketing channels
Limited use of design resource	
Antiquated machinery, particularly in the smaller companies Quality control generally poor Pre-press capabilities adequate Little use of technical consultants	Level of technology consistent with business objectives
Investment in training low Major lack of employee skills Absenteeism a moderate problem Staff turnover moderate Moderate wage rates Low levels of employee education	Investment in training very low Major lack of employee skills Absenteeism manageable Staff turnover is not a problem Attractive wage rates Moderate levels of education

are generally made on an ad hoc basis. Without a competitive marketing strategy, it is unlikely that these decisions will be effective.

As will be seen in Chapter 5, institutional support for SMEs in the area of marketing concentrates on the tools of the marketing mix, with very little attention given to help develop a successful marketing strategy.

### **3.2.5.2 Design**

Design effectiveness is extremely difficult to assess, particularly quantitatively. The absolute measure of how many and what type of designers are used is insufficient. Many designers may be used simply to ensure that a garment or printing material is productionable. Our observations reveal little evidence of the extra flair, originality or excitement of good design that makes the difference between a product that is competitive and successful in export markets and one that is mundane.

Designers need a very rich and varied environment from which to draw ideas and inspiration. In Mauritius we suspect that many of them, no matter how well trained, have limited or ineffective exposure to these sources. In addition, design can only be as good as the design brief given, and we also suspect that very few managers of SMEs have experience of managing either designers or the design process.

The enhancement of a design culture in Mauritius is feasible and in Chapter 6 we propose an initiative that could help to propagate good design and design management.

### **3.2.5.3 Technology**

The technology needs of the three sectors varies considerably. In textiles, the acquisition and maintenance of the machinery itself is less significant a factor in achieving competitive advantage than the technologies related to production management and materials handling. Much more help needs to be given to SMEs in acquiring these skills.

For very small enterprises in the printing and publishing industry, the cost of acquiring modern printing machines may not be justified by the volumes and value of work available. Instead, as the Pira report suggests, they should be investigating the opportunities presented by new low-cost electronic technologies in the area of pre-press, pre-media and communications services. Those serving the domestic market might consider reinventing themselves as copy shops, along the lines of Kall Kwik and Prontaprint in the UK (see Box 3.1).

But many SMEs are ill-equipped to make these strategic decisions. For institutional support to focussing on “technology”, without a recognition of strategy, fails to provide appropriate assistance.

### **Box 3.1: Bringing printing to the high street – The case of Kall Kwik**

The advent of new technology has changed the face of small-scale printing in the UK. At one time, every High Street had a small printer servicing local businesses and individuals with corporate and personal stationery. Now, they have completely disappeared, to be replaced by the drop-in copy shop. Two major franchised chains dominate this new industry – Kall Kwik and Prontaprint – both offering design, copy and print services. A typical Kall Kwik branch will have a number of photocopying machines ranging from very small coin-operated ones that customers can use themselves to large commercial machines that can replicate high quality black and white print, and which are economically viable at much smaller print runs than the traditional printing machine. Colour copying, the production of transparencies for overhead projectors, laminating and binding, enlarging and reducing are additional over-the-counter services offered. Both chains offer customised graphic design services, as well as traditional two-colour printing; they sell standardised social or greeting cards that can be overprinted, and a range of stationery products.

Turnaround is very fast, from immediate service on an as-you-wait basis to only a few days for customised printing. Customers can download data directly via email to the Kall Kwik branch for collection later that day.

Kall Kwik and Prontaprint have made design and printing services fast, accessible and affordable for the individual or the smaller business, leaving the traditional printers to concentrate on higher quality, higher volume and more complex work for large corporate customers.

#### **3.2.5.4 Human Resource**

Overall, the textile sector demonstrates poor use of human resources. Low levels of employee skills are compounded by minimal investment in training. De-motivated employees tend towards absenteeism, high staff turnover and low productivity. The printing and publishing industry appears to make better use of people, whilst the IT sector attracts and rewards the most able personnel.

Like SMEs all over the world, those in Mauritius have difficulty in implementing effective human resource management strategies and practices. This problem is compounded by the Anglo-American origins of the theory on which “good” practice is based – it takes no account of the cultural differences of non-Western societies.<sup>4</sup> In contrast the progressive textile company mentioned earlier has taken these theories and adapted them to its specific circumstances. SME support institutions in Mauritius

<sup>4</sup> Mendonca and Kanungo (1996)

might consider conducting a research project to identify appropriate human resource management techniques and practices that could result in an extensive training programme for owner-managers of SMEs.

### 3.3 Strategy

For a small or medium enterprise to be successful internationally it needs a clearly defined strategy for both entering and maintaining a viable position in selected markets. The two key tasks in developing such a strategy are:

- identifying and selecting a target market
- creating and implementing a competitive advantage.

We shall explore these and consider whether and how the firms in our sample make strategic choices.

#### 3.3.1 Market Selection

Market selection follows these stages:

*Gathering information on markets* – Market knowledge is gained in two ways: desk research, e.g. reading country and market reports, statistical data, finding out about competitors; and through primary research, e.g. talking to customers, distributors, agents, and by personal visits to potential markets.

Three problems face the typical SME in carrying out desk research on potential export markets. Firstly, they may have little understanding of what to look for. Currently, the role and process of business research is usually only taught on management courses. Only one chief executive in our sample has an MBA and two hold first degrees in management. Of the others, qualified to first degree level, most have studied technical subjects related to their type of activity. The second problem derives from the sheer scale of available information. This makes it difficult for the owner-manager to sift through and pull out the relevant parts. Lastly, the everyday pressures on heads of SMEs and their lack of time and resources prevents them standing back and adopting a strategic, longer-term perspective.

In our research, we asked respondents about their use of information sources, specifically SMIDO's Documentation Centre, the information services offered by EPZDA, and MEDIA's Trade Information Centre. The results are shown in detail in Chapter 5. We also aimed to assess the degree of primary research undertaken by our sample in terms of personal contact with overseas markets through attending buyer/seller meets or trade fairs. Our findings support our estimation that very few SMEs are actually using the information services available locally.

Conducting primary research is probably even more difficult for the average SME and particularly so in Mauritius given its geographical isolation and the relative cost of

travel to income. It is, therefore, disappointing to see that the majority of SMEs in our sample have not used the opportunities offered by MEDIA in its buyer/seller meets or trade fairs. These findings are consistent with those of De Chazal Du Mee (1998). Possible reasons for this will also be discussed in Chapter 5.

It is clear that SMEs, by themselves, have great difficulty in even beginning the process of developing successful export strategies. As a first stage, much more *direct* help is needed by SMEs to identify the countries and market segments that hold most promise.

*Evaluating markets and assessing strategic fit* – Markets are evaluated on factors such as size, growth, concentration, cost structures, ease of entry, competitive offerings, and customer needs. For an SME to assess its chances of successfully entry to a given market, it needs to understand what proposition would deliver competitive advantage in that market, whether it already has the capabilities to deliver such a proposition, and if not, what it would need to do to enhance its capabilities. Such an evaluation has major financial implications. The firm must understand the various concepts of cost, breakeven, and the relationship between cost, volume and profit. It needs an understanding of different pricing strategies and how they impact on profitability; of the importance of cash flow; of investment appraisal and the time value of money; and of different ways of assessing return on investment.

The recent report on the printing industry, mentioned earlier, concludes that overall financial management within the sector is poor, particularly with regard to knowledge of costs. The decision to adopt a low-cost or added value proposition, for example, is critically dependent on cost structures both within the market generally and the SME in particular. A lack of proper management accounting procedures will be a major inhibitor to exporting.

Financial accounting seems to be better understood and used. Of sixteen enterprises that responded to a question on how often they forecast and updated cashflows, two never used them at all, but six updated and forecast on a monthly basis. Again, SMEs need more hands-on assistance in evaluating markets and assessing their own capabilities. This requires high-level managerial skills and it is unreasonable to assume that SMEs achieve this themselves. These two stages concerned with market selection form the first part of developing an export strategy.

### **3.3.2 Competitive Advantage**

The principal sources of competitive advantage for SMEs wishing to export are widely cited as:

- offering meaningful differentiation in a limited number of relatively small markets (“nicheing”)
- developing good relations with overseas distributors and agents<sup>5</sup>

<sup>5</sup> Katsikeas et al (1997), Yeoh et al (1995), Wren et al (1998), Simpson and Paul (1995)



These link to the next two stages of the export initiation process.

*Developing a proposition* – If a market appears promising and the firm has, or can develop, sufficient capabilities to serve that market, then they can decide the best positioning within that market. The two basic positionings are to offer value through lower-cost and, therefore, a lower price to the consumer; or to offer value through differentiation and/or customisation. The literature of SMEs<sup>6</sup> indicates that a niche strategy, offering differentiation, customisation or innovation, is the most achievable and maintainable position.

The textile companies we visited were asked whether they are pursuing a low-cost or high quality strategy. All said they were aiming at a high quality strategy, yet from our observations only two offered a significant degree of differentiation, customisation or innovation in their products. The rest were producing “me-too” products that would lack competitiveness in most overseas markets.

Interestingly, the two firms delivering differentiation both had CEOs who had either lived abroad or who have ongoing personal experience of overseas markets. “Differentness” is relative and it is impossible to know how to be different and interesting if one has a limited perspective. We will link this later to the discussion on the type of mindset needed to export successfully, but it indicates that, for many SMEs in Mauritius, the limitations of a small remote island can be a major handicap to innovation.

*Market entry* – Having developed a differentiated proposition, the potential exporter should consider how to enter the selected market. For most SMEs, the most effective method is to develop relationships with distributors or agents. Although, in our assessment of distribution capabilities, some of the firms we surveyed are using agents or wholesalers, our overall impression is that in most cases these relationships tend to be ad hoc and opportunistic.

The challenge for the SME sector is to develop more formal, enduring and favourable relationships with distributors. This requires knowledge and time, and is therefore difficult for the individual entrepreneur to achieve. We are proposing, in our last chapter, a framework for helping SMEs enter new markets more easily.

The small scale and capacity of most SMEs is a significant barrier to exporting. One of our respondents in the garment manufacturing business had to refuse an order from an overseas buyer because he was unable to supply in sufficient volume. Establishing consortia of SMEs in a particular industry sector, where members collaborate in developing differentiated, distinctive propositions, and perhaps centralise functions such as design and materials sourcing, might overcome this problem. We will discuss this later in more depth.

Subcontracting is another well-tried mechanism for small companies to enter overseas markets. No one in our sample is involved in any form of subcontracting. All are trying to “go it alone”. Although Mauritius has a framework for linking companies through subcontracting (SUBEX), this only applies to firms engaged in engineering activities.

<sup>6</sup> For example, Barber et al (ed . 1992); Porter (1980); Hall (1995)

*Competitive advantage through new technologies* – Recent developments in telecommunications have opened up new international business possibilities for many SMEs. Many of the disadvantages of size, scale and location of the small firm have been neutralised and they are better able to investigate, make contact with, and enter new markets. For example, shopping via the internet and digital television is likely to create the biggest retail revolution for a century, and one in which SMEs are as likely to succeed as their biggest competitors. In the companies we visited, only a few use the internet regularly or even have email facilities. Some of them have no computers at all.

The diffusion of computer technology at the simplest and lowest level should be a major priority of Mauritius. Britain recognised this some time ago in the 1980s when it gave computers to every school in the country. Liberalisation and privatisation in the telecommunications sector in Mauritius should be expedited to ensure low-cost communications. This would encourage the establishment of new forms of enterprise, such as internet cafés, CD Rom authoring, offshore data entry and software development.

### **3.3.3 Conclusions**

Many SMEs in Mauritius appear to have set up in business in order to produce what they can or what they are good at, but then wait for customers. Few seem to have developed a clear export strategy based on analysis of sound information. In our questionnaire, we asked respondents to identify their growth strategy for the next five years in terms of Ansoff's matrix of marketing objectives: market penetration, product development, market development and diversification. It should be noted that this question was phrased in non-jargon language.

One small company feels that their market development strategy is to “look for new customers and bigger orders” and their diversification strategy is to “reduce cost of production by buying new machines”. Clearly, this owner-manager has little idea of what constitutes strategy. Some of our respondents fully understood the question and answered with seemingly clearly thought out and feasible strategies. However, these are mainly the larger, well-established companies among the sample.

The three-year business plan is the principle framework for formulating strategy. All SMEs should be encouraged to undertake business planning on a regular basis. One method is to insist on the submission of a strategic business plan before any financial loans or grants can be made. Since SMEs in Mauritius have access to many forms of financial assistance – bank loans at preferential rates, training subsidies, etc – this is a relatively easy mechanism.

It is unrealistic to assume that the smaller enterprises are able by themselves to develop appropriate growth and export strategies. In our view they need much more direct help and hand-holding. Some of our proposals in the last chapter address this need.

### 3.4 Managerial Characteristics

For SMEs in Mauritius exporting is the principal growth strategy. Substantial research has been undertaken into growth in small firms and the discourse generally falls under three headings: market opportunities and structure; resources, specifically access to finance, skilled labour and technology; and management and motivation. Whilst the firm's operating environment is outside of its control, a successful growth strategy capitalises on external opportunities and implements appropriate and timely changes in the firm's internal organisation. This process is dependent on the growth orientation of the owner-manager, which is predominantly driven by his or her managerial characteristics.

The three managerial characteristics we are considering in relation to Mauritian SMEs are:

- the commitment of the owner-manager to growth, and thereby to exporting, and the managerial skills that foster growth
- the export orientation of the owner-manager in terms of perception of risk and willingness to commit resources
- the mindset of the owner-manager in terms of a global or international perspective.

#### 3.4.1 COMMITMENT TO GROWTH

It cannot be assumed that all small businesses are interested in growth. Three categories of small business can be identified. Those that are created for the specific purpose of income substitution (the mom and pop shop) will be satisfied with just sufficient turnover to generate a basic living for family members. These tend to remain as micro-enterprises. The second category encompasses those businesses whose owner-manager aims for a standard of living significantly higher than would be achievable through employment. Typically, this sort of firm will grow sufficiently to offer employment to, perhaps, tens of people, but is unlikely to step out of the SME category. The third type of business has an inherent growth orientation and, unless prevented by negative environmental conditions, demonstrates rapid, quantitative growth from the outset.

Of the SMEs surveyed, only one company achieved more than 40% growth, in this case 56%. Although the number of respondents is far too small to give a representative view, the growth rates are disappointing. Of these thirteen companies, seven were established in the 1990s, five in the 1980s and one in 1974. Only three are less than five years old and of those three, one achieved growth of 0.2%, another 35% and the other 40%. It should also be noted that the company showing 35% growth is, in number of employees, larger than the definition of an SME. If we assume that a growth-oriented company achieves rapid growth in its formative years, then only one out of the thirteen

would appear to fall into the third category of business. Even then, a new fast growing company could expect to at least double its turnover annually.<sup>7</sup>

In the literature, correlations have been found between personality characteristics and growth-orientation of the small business owner-manager. It may be of interest to public sector or other SME support institutions to have a way of identifying growth-orientation in order to maximise the effectiveness of investment in building or enhancing entrepreneurial skills. A “Growth Club” targeted at the owner-managers of small businesses with growth potential has been tried in Durham, UK.

For a company to grow, it must acquire a broader range of skills, competences and perspectives than the owner-manager alone can supply. It needs to empower others working in the organisation and create an organisational structure that can cope with complexity. Since a major motive for small business start-ups is the owner-manager’s desire for control, he or she may resist the necessary move towards management delegation.

Of the SMEs interviewed, only six are not managed on a day-to-day basis by the owner. Of these six, four are wholly- or majority-owned by non-Mauritians; three are within the IT sector, two are the French-owned pre-press service facilities, and only one is in textiles. Given the low level of managerial skills of many owner-managers, SMEs in Mauritius may continue to remain small and, in terms of this study, continue to struggle with exporting.

Enhancing managerial skills through the traditional routes of academic learning, or even short courses and workshops, in our view is largely ineffective and certainly inappropriate for the busy owner-manager of an SME. These courses are de-contextualised, ill-suited to the hands-on approach of the entrepreneur, and consume too many resources. On-the-job training is significantly more appropriate and we propose, in the last chapter, systems of mentoring and shadowing that could enhance managerial skills quickly and effectively.

### 3.4.2 EXPORT ORIENTATION

A research study,<sup>8</sup> into the export propensity of very small food and beverage processing firms in Australia, identified the export orientation of the owner-manager as one of the most important influences on export potential. The research concluded that successful exporting companies had owner-managers who were totally committed to exporting and who were prepared to commit substantial resources.

Our impressions of the companies we visited are that only two or three of them are sufficiently committed to developing export business to make it a priority. It is possible that the issues related to lack of export skills are so inhibiting that owner-managers feel overwhelmed. Supporting institutions in Mauritius could consider facilitating the establishment of dedicated, sector- or market-specific export houses that could take

<sup>7</sup> Firm growth is a function of many factors including the size of the firm, the structure-conduct-performance characteristics of its industry, the nature of its ownership, its skill base, and so on. It is recognised that managerial commitment is only one influence, albeit a particularly important one.

<sup>8</sup> Philp (1998)

on many of these exporting functions. This idea will be discussed in more detail in the last chapter.

Another study, this time of SMEs in New Zealand,<sup>9</sup> identified that owner-managers' perceptions of the risks involved and the profit potential in exporting were instrumental in whether they adopted a strategic intent to export. The assessment of risks and future profits is made relative to the domestic market. Although initial exporting activity delivered less profit than from domestic markets, the longitudinal study found a perception that exporting would deliver future profits was steadfastly maintained by the companies that became the most successful exporters. In addition, the study found that new exporters were most comfortable exporting to markets with the closest "psychic distance", in this case, Australia and the Pacific Islands. Once experience was gained in these markets, firms were more likely to attempt exporting farther afield.

These insights should help SME support organisations to develop initiatives that firstly, reduce the actual risk of exporting. Several ideas have already been put forward and will be explored in more detail in Chapter 6 of this study. Secondly, the support sector may consider ways to enhance and maintain perceptions of export profitability through, perhaps, widely publicising and rewarding profitable export achievements. Lastly, if exporting initially to the Indian Ocean islands sits within an owner-manager's "comfort zone", then perhaps more could be done on a collaborative basis to target those markets more effectively.

### 3.4.3 A GLOBAL OR INTERNATIONAL MINDSET

In our view, exposure to international influences is a significant factor in developing differentiated propositions. We contend that where the owner-manager has had extensive contact with other societies, he or she is better able to develop a successful exporting business. Of the companies we observed those with the highest level of exports, owner-managers had lived abroad, studied in Europe or the US, or, in one case, travelled extensively.

This is supported by a study of global mindsets and their influence on Third World businesses.<sup>10</sup> A global mindset is not just about knowledge of the world. It is a set of attitudes and beliefs that encompasses elements such as curiosity; the acceptance of complexity, diversity and uncertainty; trust in others and the ability to delegate; a focus on continuous improvement; and a long-term view. Mauritius' small size, together with its geographical and cultural limitations, make it difficult for people who have rarely left the island to develop this mindset. It is impossible to change people overnight, but infusing a more outward-looking approach is feasible. There are many ways to do this and we will discuss some of them in the final chapter.

<sup>9</sup> Chetty and Hamilton

<sup>10</sup> Srinivas (1995)

### 3.4.4 Conclusions

Traditionally, enterprise policy has focused on two main concerns: increasing the net birth rate of firms and creating a favourable external environment. Increasingly, attention is being focused on the endogenous drivers of growth, the “soft” values, the less tangible and less quantitative factors that determine the high-growth small firm. If we accept that the owner-manager of an SME is the single most important determinant of how successful the firm becomes, then his or her personal characteristics assume a much greater role.

It is improbable that entrepreneurship can be taught. It depends on a set of values, attitudes and beliefs involving perceptions of risk, self-concept, creativity and fun. However, it is possible to identify and target potential entrepreneurs (and perhaps develop an entrepreneurial “hothouse”) to help them fulfil their potential. Basic managerial skills and capabilities, however, can be developed in most people who are interested in business, and higher level managerial skills can be nurtured in many ways.

In the next century a culture of innovation will be critical to the success of nations. Mauritius must create for new and successive generations the mindset that will give it the national comparative advantage of innovation.