Export constraints facing Lesotho-based manufacturing enterprises

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Dates:
Received: 25 Aug. 2014
Accepted: 23 Feb. 2015
Published: 17 July 2015

How to cite this article:
Mokhethi, M.C. & Vögel, A.J., 2015, 'Export constraints facing Lesotho-based manufacturing enterprises', *Acta Commercii* 15(1), Art. #284, 8 pages. http://dx.doi.org/10.4102/ac.v15i1.284

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Orientation: Exporting is preferred by many enterprises as the mode of foreign entry as it requires less commitment of organisational resources and offers flexibility of managerial actions. However, enterprises face a number of challenges when attempting to initiate exports or expand their export operations.

Research purpose: This study was undertaken to determine the characteristics and composition of export barriers constraining exporting by Lesotho-based manufacturing enterprises.

Motivation for the study: Lesotho is faced with low destination diversity and low diversity in export products.

Research design, approach and method: Data was collected from 162 Lesotho-based manufacturing enterprises through a self-administered questionnaire.

Main findings: In its findings, the study firstly identified international constraints, distribution constraints and financial constraints as factors constraining exporting. Secondly, it was determined that three exporting constraints, all internal to the enterprise and all related to one factor (namely financial constraint) hampered exporting. Lastly, the ANOVA results revealed that the perceptions of export constraints differed according to the enterprise characteristics, enterprise size, ownership and type of industry.

Contribution/value-add: With the majority of enterprises in this study being identified as micro-enterprises, the government of Lesotho needs to pay particular attention to addressing the export needs of these enterprises in order to enable them to participate in exporting activities – especially considering that they can play a pivotal role in the alleviation of poverty, job creation and economic rejuvenation.

Introduction

Globalisation has prompted an increasing number of enterprises to develop strategies for entering markets outside their home markets (Bitzenis 2004:406; Johansson 2006:5; Osland, Taylor & Zou 2001:153). According to Albaum, Duerr and Strandskov (2005:253), Halikias and Panayotopoulou (2003:340), and Leonidou *et al.* (2007:736), this entry into a foreign market can happen by either exporting to the market or by producing in the host country, with exporting being preferred as it requires less commitment of organisational resources and offers flexibility of managerial actions. However, enterprises face a number of challenges when attempting to initiate exports or expand their export operations (Leonidou 2004:280; Préfontaine & Bourgault 2002:123; Viviers & Calof 1999:918; Westhead, Wright & Ucbasaran 2004:501).

As regards exports from Lesotho, statistics show that, with the exception of the years 2003, 2005 and 2007, there was an increase in exports during the period 1975–2008 (Lesotho Bureau of Statistics 2010:11). Between 1975 and 1984, exports grew by 10.4%, whilst the period 1985 to 1994 saw a growth rate of 19.4%. Exports reached a high of 122.3% (Lesotho Bureau of Statistics 2010:11) in 2000 following the signing of the Africa Growth Opportunity Act (AGOA).

This growth in exports can be attributed to a number of reasons, such as South African enterprises operating in Lesotho to avoid apartheid era trade sanctions in the 1980s (Lall 2005:1004; Salm *et al.* 2002:14), the Lesotho National Development Corporation's (LNDC) promotion of an export-oriented manufacturing sector in the early 1990s, especially textiles (Central Bank of Lesotho 2006:1), and the signing of AGOA in 2000. AGOA is a unilateral trade preference programme that grants eligible countries in sub-Saharan Africa (SSA) duty-free access to the US market (United States Department of Commerce n.d.). In particular, the signing of AGOA has led to an inflow of foreign direct investment (FDI) from Asia into the apparel and textile industries (Central Bank of Lesotho 2006:2; MIGA 2006:23).

Clothing and garment exports have dominated Lesotho's exports (Central Bank of Lesotho 2006:2; Lesotho Bureau of Statistics 2003:3; Ng & Yeats 2004:157), contributing between 63.2% and 89.9% of total exports between 1999 and 2008. This could cause problems as the success of these products in recent years has been due to preferential access under AGOA, with AGOA set to expire in 2015 (Condon & Stern 2011:5; Congressional Research Services 2003:10; Schaefer & Markheim 2006:2). According to Sandrey *et al.* (2005:3), with low destination diversity the future of Lesotho's exports post-AGOA is bleak. An example of this drop in exports can be seen in 2005 when the World Trade Organisation's (WTO) Agreement on Textiles & Clothing (ATC, also known as the Multi-Fibre Arrangement (MFA)) expired. This meant that the previous buyers of garments made in Lesotho could now buy unrestricted quantities of garments from places like China, causing a drop in exports from Lesotho (Bennet 2006:165). According to the Lesotho Bureau of Statistics (2010:15, 17), Lesotho's exports are predominantly destined for either South Africa or the American continent (including the US, Canada, Chile and Mexico). For instance, in 2008 exports destined for South Africa represented 30.9% of total exports, whilst 53.5% were destined for America, leaving only 15.6% for other markets.

In view of Lesotho's low destination diversity and low diversity in export products, as well as the AGOA agreement set to expire in 2015, this study was undertaken to determine the characteristics and composition of export barriers constraining exporting by Lesotho-based manufacturing enterprises.

Literature review and hypotheses

Over the years a number of studies have focused on export barriers (Crick & Chaudhry 2000:30; Kaleka & Katsikeas 1995:499). According to Leonidou (1995:6), the thrust of the research on export barriers occurred in the 1980s and early 1990s, even though the first empirical research appeared in the mid-1960s. Studies by Kaleka and Katsikeas (1995), Leonidou (2004), and Mahajar and Hashim (2001) focused on export constraints faced by enterprises from developed countries, with Leonidou (2004:283) in particular identifying two main groups of export barriers: internal and external. Tesfom and Lutz's (2006:269) study conducted in developing countries supports this classification and further subdivides the two main groups into enterprise, product, industry, market and macro-environmental barriers.

Studies by Crick and Chaudhry (2000), Da Silva and Da Rocha (2001), Katsikeas and Morgan (1994), Suárez-Ortega (2003), and Sullivan and Bauerschmidt (1989) aimed to determine whether perceived export barriers were influenced by various enterprise characteristics. In particular, Crick and Chaudhry (2000:33–34) revealed a number of barriers that exhibited statistically significant differences between groups of enterprises that operate in different industries, and Sullivan and Bauerschmidt (1989:21) found that managers in the same industry had similar perceptions towards certain sets of export barriers, whilst at the same time differing in perceptions towards other barriers. As a result it was hypothesised in this study that:

- $\mathbf{H_{1o}}$: The perceptions of managers in Lesotho-based manufacturing enterprises towards export barriers do not vary according to the industry they operate in.
- $\mathbf{H_{1a}}$: The perceptions of managers in Lesotho-based manufacturing enterprises towards export barriers vary according to the industry they operate in.

Another enterprise characteristic related to perceived export barriers is enterprise size, as measured by the number of employees employed by an enterprise. Number of employees is preferred as research has revealed that managers are more willing to provide information on employment than sales volumes (Katsikeas & Morgan 1994:21). Katsikeas and Morgan's (1994:25) findings found that smaller enterprises perceived more export problems than larger enterprises in three areas: information about the export market, product adaptation and exogenous logistical constraints. Da Silva and Da Rocha (2001:600–601) found that larger enterprises perceived themselves as being more affected by corruption in their international operations than small and medium enterprises did.

According to Katsikeas and Morgan (1994:20), and Suárez and Álamo-Vera (2005:260), larger enterprises are assumed to have greater resources, which are associated with lower levels of perceived risk in export market activities. Aaby and Slater (1989:21), however, found no relationship between enterprise size and exporting activity. It was therefore hypothesised in this study that:

- $\mathbf{H_{2o}}$: The perceptions of export barriers of managers in Lesotho-based manufacturing enterprises do not vary according to enterprise size.
- $\mathbf{H_{2a}}$: The perceptions of export barriers of managers in Lesotho-based manufacturing enterprises vary according to enterprise size.

Lastly, the research focused on the relationship between ownership structure and export barriers. 'Ownership plays a key role in creating the incentives necessary to make risky decisions, including those associated with international expansion' (Lin 2010:368). According to Lin (2010), managers may be hesitant to make the risky but necessary move since their compensation is dependent on the performance of the enterprise. Ownership structure has been operationalised in different ways. Fu, Wu and Tang (2010:13) used sources of registered capital to categorise enterprise structure. They came up with three major classes: wholly foreign-owned enterprises, joint ventures and wholly locally owned enterprises. Joint ventures also differed as to whether they had foreign control or domestic control.

Fu *et al.* (2010:13), in a study of Chinese manufacturing enterprises, found that wholly foreign-owned enterprises and joint ventures with foreign control have a higher probability of exporting and being persistent exporters.

 doi:10.4102/ac.v15i1.165

On the other hand, joint ventures with domestic control and wholly locally owned enterprises were not likely to export or to improve their export status.

Kim and Park (2011:5), however, differ from Fu *et al.* (2010:13). In their study of Korean manufacturing enterprises, they determined that concentrated ownership (irrespective of whether the dominant owners are of foreign or domestic origin) influences managers to perceive export constraints as less daunting than managers operating in enterprises that have dispersed ownership. Therefore it was hypothesised in this study that:

- **H_{3o}:** The perceptions of managers in Lesotho-based manufacturing enterprises towards export barriers do not vary according to enterprise ownership structure.
- **H_{3a}:** The perceptions of managers in Lesotho-based manufacturing enterprises towards export barriers vary according to enterprise ownership structure.

Methodology

A judgement sampling approach was used, in that 7 out of 10 industrial areas in the country were visited and enterprises engaged in manufacturing were given a questionnaire to complete. The key-informant technique was employed, whereby key informants were managers directly responsible for international operations – in the absence of an international operations manager, the chief executive officer was approached.

Following a comprehensive literature study, the questionnaire had been developed on the basis of export barriers obtained from different authors, namely Da Silva and Da Rocha (2001), Leonidou *et al.* (2007), Leonidou (2004), Salm *et al.* (2002), Suárez-Ortega (2003), and Tesfom and Lutz (2006). The questionnaire consisted of both structured and open-ended questions (questions one and five), with the questionnaire being divided into two sections. Section A (questions one to six) comprised questions focused on enterprise characteristics, whilst Section B (questions 7.1 to 7.45) measured attitudes to export barriers using a five-point Likert scale, meaning that a total of 45 attitudes to export barriers were tested.

During the initial stage, the instrument underwent two rounds of evaluation: firstly by academics knowledgeable in the field of study, and secondly during the pilot study. A drop-and-pick-up approach was used: the researcher personally delivered the questionnaires to 171 Lesotho-based manufacturing enterprises. Of the 171, 9 enterprises failed to complete the questionnaire in the required three months, meaning that 162 usable questionnaires were received back, which translates into a 94.7% response rate.

After the questionnaires were returned, the data was first summarised using descriptive statistics. Secondly, the construct validity of the instrument was tested using an exploratory factor analysis, whilst Cronbach's alpha was used to measure the internal reliability of the instrument. Lastly, analysis of variance (ANOVA) was used to determine if enterprise characteristics influenced managers' perception of export barriers. The significance level selected for the ANOVA was 0.05.

Results and discussion

Validity

As indicated above, an exploratory factor analysis was conducted to determine the construct validity of the measuring instrument. The results of the factor analysis (Table 1), show factor 1, named *international constraints* and is made up of 23 variables, factor 2, named *distribution constraints* that consists of three variables, and factor 3, named *financial constraints* and is made up of five variables. The factors account for 44.41% of the total variance in the data space. This is further supported by the fact that the eigenvalues for all three factors were above 1.00. Based on the factor-analysis results, 14 of the 45 variables were excluded as they either loaded high in more than one factor, or did not load high with any one factor. Upon inspection of the items making up each of the three factors, it was confirmed that the instrument did measure export barriers and as a result could be considered valid.

Factor 1 was named *international constraints* because when looking at the 23 variables in this factor it can be seen that they represent variables from both domestic and foreign environments and the interaction between these two environments. Ball *et al.* (2010:23, 25) define 'international environment' as the forces of the interaction between the domestic and foreign environments or between sets of foreign environmental forces.

Factor 2, *distribution constraints*, relates to issues of the enterprise's representation in overseas markets, whilst factor 3, *financial constraints*, relates to the financial capabilities of an enterprise.

Reliability

The instrument used in this study can be considered reliable, as the alpha values for the three factors (Table 2) all scored above the recommended minimum alpha value of 0.70 (Cohen, Manion & Morrison 2007:506; Pietersen & Maree 2007:216).

Demographic profile

The results show that the majority of enterprises (35.80%) that participated in the study were less than five years old, followed by 29.01% that had operated in the range of six to 10 years. The mature enterprises that had operated in Lesotho for 11 years or more (and made up the remaining three categories in the questionnaire) represent 35.19% of the total. Most of the enterprises (50.62%) were micro-enterprises, that is, they had fewer than three employees, whilst large enterprises with 50 or more employees represented 24.69% of the respondents. In terms of ownership structure, wholly foreign-owned enterprises represented 32.09%, wholly

TABLE 1: Factor matrix with sorted rotated factor loadings.

Coding	Variables	Factor 1	Factor 2	Factor 3
V33	High insurance cost to cover products whilst in transit to foreign markets	0.821	0.000*	0.000
V30	Risk and variations in exchange rates	0.743	0.000	0.000
V43	Corruption in Lesotho	0.737	0.000	0.000
V31	Difficulty in supplying inventory abroad	0.706	0.000	0.000
V32	High transport costs for transporting products to foreign markets	0.697	0.000	0.000
V44	Corruption in the target market	0.675	0.000	0.000
V42	Unsuitable storage facilities for containers at the Lesotho railway terminal	0.636	0.000	0.000
V41	Inadequate container-handling facilities at the Lesotho railway terminal	0.628	0.000	0.000
V45	Political problems in Lesotho	0.607	0.000	0.000
V29	Difficulties meeting after-sales service to customers abroad	0.574	0.000	0.000
V26	The challenge of having to deal with foreign customers that have different cultural customs	0.564	0.000	0.000
V50	Political instability in the foreign markets that the enterprise wishes to serve	0.546	0.000	0.000
V35	Restrictions on the quantity that is allowed by foreign markets to enter their countries	0.535	0.000*	0.000
V18	Difficulty in meeting packaging requirements	0.469	0.000	0.000
V23	Lack of own internationally recognised brand names	0.477	0.000	0.000
V40	Poor telecommunication services	0.414	0.000	0.000
V20	Unable to adapt the enterprise's products to export market's requirements	0.356	0.000	0.000
V28	Difficulty in meeting foreign delivery dates	0.486	0.000	0.000
V36	Low labour productivity in Lesotho	0.464	0.000	0.000
V46	Industrial unrest in Lesotho resulting from employee strikes	0.500	0.000	0.000
V37	High cost of labour in Lesotho	0.498	0.000	0.000
V17	Difficulty in meeting product quality standards	0.417	0.000	0.000
V24	Lack of acceptance of Lesotho's products in the markets the enterprise wishes to serve	0.485	0.000	0.000
V11	Difficulty in maintaining control over foreign middlemen that the enterprise will be using	0.000	0.993	0.000
V10	Difficulty in obtaining reliable middlemen abroad	0.000	0.941	0.000
V9	Difficulty in communicating with clients overseas	0.000	0.719	0.000
V13	Lack of financial resources for market research	0.000	0.000	0.971
V12	Lack of financial resources to finance export sales	0.000	0.000	0.935
V14	Lack of excess manufacturing capacity for exports	0.000	0.000	0.425
V21	Lack of awareness of export assistance available in Lesotho	0.000	0.000	0.415
V49	Difficulty in matching competitors' prices	0.000	0.000	0.359

*, All loadings less than 0.250 were indicated as 0.000.

TABLE 2: Factor reliability as described by the Cronbach Alpha values.

Factor	Cronbach's Alpha
1. International constraints	0.9249
2. Distribution constraints	0.9352
3. Financial constraints	0.7933

locally owned enterprises 62.35% and jointly owned enterprises 5.56% of the respondents.

The respondents operated in 19 industries, but for the purposes of this study these were grouped into three industries, namely: textile and apparel (representing 54.32% of respondents), the leather industry (representing 8.64% of respondents), and enterprises classified as 'the rest' (representing the remaining 37.04%). The enterprises comprised both exporting and non-exporting enterprises, but a further analysis of the exporting status of the enterprises determined four categories of enterprises: uninterested non-exporting enterprises (27.78%), interested non-exporting enterprises (26.55%), inactive exporters (6.79%) and active exporters (38.88%).

Analysis of variance

The three identified factors represented the dependent variables, whilst the three enterprise characteristics (type of industry, enterprise size and ownership structure) represented the independent variables.

TABLE 3: Factor 1 - International constraints and enterprise size.

Variable	Mean*	Standard deviation
Micro	1.8427a	0.6002
Small	1.4631b	0.8247
Medium	2.0793a	0.7656
Large	2.1667a	0.7539

*, Means with the same letter are not significantly different.

Size of the enterprise

The results of the ANOVA indicated that the respondents' perceptions of factor 1 (international constraints) were influenced by the size of the enterprise (Table 3), with small manufacturing enterprises perceiving international constraints as being less of a constraint to exporting than did micro, medium and large enterprises.

This therefore means that the null hypothesis H_{2o} (The perceptions of export barriers of managers in Lesotho-based manufacturing enterprises do not vary according to enterprise size) was rejected, whilst the alternative hypothesis H_{2a} (The perceptions of export barriers of managers in Lesotho-based manufacturing enterprises vary according to enterprise size) was accepted.

This finding contradicts the existing literature that states that smaller enterprises experience export constraints more severely than larger enterprises do (Katsikeas & Morgan

1994:25). In the case of Lesotho, most larger enterprises in the manufacturing sector are accounted for by foreign enterprises that operate predominantly in the textile and apparel industry (ECI Africa 2006:29; Lall 2005:1000; Lesotho MTICM 2008:23), and are export-oriented (Central Bank of Lesotho 2006:1; Lesotho MITM 2003:2; MIGA 2006:23). Some smaller enterprises do, however, cater for foreign markets with products such as carpets, tapestry, leather goods and handicrafts (Lesotho MITM 2000:9). According to the Lesotho MITM's (2000:8) definition, smaller enterprises cover both small-scale and micro-enterprises.

The findings of this study are interesting, as micro-enterprises perceive international constraints as more severe than do small enterprises, grouping micro-enterprises with medium and large enterprises. A possible explanation for this could be that it is the micro-enterprises, rather than small enterprises, that cater for foreign markets, with carpets, tapestry, leather goods and handicrafts.

Industry in which the enterprise operates

Secondly, the results of the ANOVA revealed a statistically significant difference (Table 4) in how respondents perceived factor 2 (distribution constraints) on the basis of the industry in which the enterprise operate.

As mentioned above, owing to the sample size and the number of industries being represented, enterprises were grouped into three industry types: textile and apparel manufacturing enterprises, leather manufacturing enterprises, and the enterprises classified as 'the rest', which comprised building materials, electrical appliances, artefacts, pottery, pharmaceutical, boxes and cartons, to mention but a few. The results showed that leather manufacturing enterprises perceived distribution constraints in the same way as did the textiles and apparel industry, whilst the textiles and apparel industry perceived distribution constraints in the same way as 'the rest' of the industries. However, the leather industry did not perceive distribution constraints as severely as did the 'the rest' of the industries.

This therefore means that the null hypothesis H_{6o} (The perceptions of managers in Lesotho-based manufacturing enterprises toward export barriers do not vary according to the industry they operate in) was rejected, whilst the alternative hypothesis H_{6a} (The perceptions of managers in Lesotho-based manufacturing enterprises toward export barriers vary according to the industry they operate in) was accepted.

These findings support previous studies that found that enterprises belonging to different industries within the manufacturing sector perceive export barriers differently, as they are likely to face different situations (Da Silva & Da Rocha 2001:601; Leonidou 2004:284; Tesfom, Lutz & Ghauri 2004:419).

In the case of Lesotho-based manufacturing enterprises, leather products are almost exclusively destined for South Africa (Sandrey *et al.* 2005:39, 58; UNCTAD 2012:19), a country that completely surrounds Lesotho and shares membership of the South African Customs Union (SACU 2013). On the other hand, some products from industries classified as 'the rest' are destined for the South Africa market (Lesotho MITM 2000:9), others are destined for Botswana (products such as medicine and pharmaceuticals), whilst yet others, such as milled products and handicrafts, are exported to Canada and the European Union (Maleleka & Matlanyane 2005:31; UNCTAD 2012:19–20). This could contribute to the enterprises classified as 'the rest' perceiving distribution constraints as more severe than the enterprises in the leather industry.

TABLE 4: Factor 2 - Distribution constraints and enterprise industry.

Variable	Mean*	Standard deviation
Textile	2.3864b, a	1.4716
Leather	1.8095b	1.1600
The rest	2.6167a	1.6442

*, Means with the same letter are not significantly different.

Ownership structure of the enterprise

Next, the ANOVA results revealed that factor 1 (international constraints) is perceived differently by respondents depending on the ownership structure of the enterprise, in that jointly owned enterprises scored statistically significantly higher ($p < 0.05$; see Table 5) in their perception of international constraints than locally owned and foreign-owned enterprises.

Lastly, the ANOVA results revealed that respondents also differed in their perception of factor 3 (financial constraints) depending on the ownership structure of the enterprise, in that locally owned enterprises scored statistically significantly higher ($p < 0.05$; see Table 6) for financial constraints than foreign-owned enterprises and jointly owned enterprises.

This therefore means that the null hypothesis H_{8o} (The perceptions of managers in Lesotho-based manufacturing enterprises toward export barriers do not vary according to enterprise ownership structure) was rejected, whilst the alternative hypothesis H_{8a} (The perceptions of managers in Lesotho-based manufacturing enterprises toward export barriers vary according to enterprise ownership structure) was accepted.

TABLE 5: Factor 1 - International constraints and ownership structure.

Variable	Mean*	Standard deviation
100% locally owned	1.8849b	0.6676
100% foreign-owned	1.7901b	0.7512
Joint ownership	2.5894a	0.8255

*, Means with the same letter are not significantly different.

TABLE 6: Factor 3 - Financial constraints and ownership structure.

Variable	Mean*	Standard deviation
100% locally owned	3.5505a	1.0761
100% foreign-owned	1.7846b	0.8819
Joint ownership	2.3333b	1.3077

*, Means with the same letter are not significantly different.

The ANOVA results that found that jointly owned enterprises scored statistically significantly higher for perception of international constraints than locally owned and foreign-owned enterprises differ from the existing literature, which suggests that enterprises with domestic control will perceive exporting constraints as more severe than enterprises with foreign control (Fu *et al.* 2010:13). A possible explanation for this finding is that with joint ownership, these enterprises experience the interaction between the domestic and foreign environments more severely than wholly locally owned and wholly foreign-owned enterprises do.

The finding that locally owned enterprises perceive financial constraints more severely than both foreign-owned and jointly owned enterprises is consistent with the existing literature, which suggests that enterprises with domestic control will perceive exporting constraints more severely than enterprises with foreign control (Fu *et al.* 2010:13). The finding further supports the literature that holds that locally owned, predominantly small enterprises would have difficulty in accessing financing. According to the World Bank (2007:70), locally owned enterprises in Lesotho are more likely to encounter serious problems in accessing credit than foreign-owned enterprises would. This is due to the fact that foreign-owned enterprises do not have to rely solely on the domestic financial system, as they can receive financing from their home country and their parent enterprises. According to the Lesotho MTICM (2008:36), most small enterprises in Lesotho rely on personal savings to finance their start-up and running costs, as they are unable to furnish the necessary security for loans needed by financial institutions.

The Lesotho MITM (2000:17) indicates that the financial sector in Lesotho is underdeveloped and it targets consumers at particular levels of income, as well as medium and large-scale corporate clients. According to the Lesotho MITM (2000:17), in effect there are no second-tier banking institutions that can mobilise savings and extend credit to small enterprises. The Lesotho MITM (2000:15–16) further indicates that attempts to establish alternative financial mechanisms to enable small and micro-enterprises to access financing failed, as the different schemes that were put in place collapsed.

The financial constraint amongst small, predominantly local, enterprises is further exacerbated by the export promotion structure, which is focused mostly on medium and large foreign enterprises engaged in the textile and apparel industry. Shakya (n.d.:10) indicates that the LNDC, charged with the implementation of the country's export and investment promotion programmes, works with medium and large enterprises, and because of its extreme concentration on apparel, it actually functions as a de facto garment promotion agency. The Lesotho MITM (2000) is also quoted as saying that:

> … until very recently, economic growth and development in Lesotho were identified solely with medium and large-scale enterprises. The small and micro-enterprises sector was seen as unproductive non-growth-enhancing. Consequently, industrial development and investment strategies and policies emphasised the need to focus on promotional efforts to attract foreign investment into the large-scale industrial sector. (p. 12)

Descriptive statistics

The mean scores of export constraints (Table 7) indicate that there are three export constraints, namely lack of financial resources for market research, lack of financial resources to finance export sales, and lack of excess manufacturing capacity for exports. Similar findings have been reported by other studies, for example, Fillis' (2002:917) list of exporting constraints included limited production capacity and lack of financial resources, whilst Da Silva and Da Rocha (2001:600) found the dominant export barrier to be lack of financial assistance.

The financial constraints have a link to the context of Lesotho's business environment. According to various reports on Lesotho, access to finance is difficult for a number of reasons, especially for smaller enterprises. The Lesotho MTICM (2002:11) and the World Bank (2007:69) indicate that lending is restricted by the limited availability and enforceability of collateral. The World Bank (2007:68–69) further indicates that the financial sector in Lesotho is very small and concentrated, and this being so, banks engage in what appears to be de facto cartel-like pricing, with high service charges and lending rates consistently higher than those of neighbouring countries, despite operating within the same common market. It is further noted that the absence of adequate credit assessment information tools, such as a credit bureaux, contributes to restricted credit.

Conclusion

The aim of the study was to investigate export constraints facing Lesotho-based manufacturing enterprises in view of Lesotho's low destination diversity and low assortment of export products. In addition, the study was conducted because the AGOA agreement, which led to an inflow of FDI into apparel and textile industries, was set to expire in 2015. This study determined that Lesotho-based manufacturing enterprises face three exporting constraints: lack of financial resources for market research, lack of financial resources to finance export sales, and lack of excess manufacturing capacity for exports. The three export barriers are all internal to the enterprise and all loaded under factor 3: financial constraints. The ANOVA results further revealed that locally owned enterprises experience these constraints much more severely than do both foreign-owned and jointly owned enterprises.

With the majority of enterprises in this study being micro as well as being local, the government of Lesotho needs to pay particular attention to addressing the needs of small locally owned enterprises' constraints in order to enable them to participate in exporting activities – especially considering

TABLE 7: Perceived exporting constraints from Lesotho-based manufacturing enterprises.

Coding number	Exporting constraints	Mean scores
V13	Lack of financial resources for market research	3.19
V12	Lack of financial resources to finance export sales	3.15
V14	Lack of excess manufacturing capacity for exports	3.04
V21	Lack of awareness of export assistance available in Lesotho	2.82
V43	Corruption in Lesotho	2.53
V11	Difficulty in maintaining control over foreign middlemen that the enterprise will be using	2.44
V10	Difficulty in obtaining reliable middlemen abroad	2.44
V32	High transport costs for transporting products to foreign markets	2.38
V9	Difficulty in communicating with clients overseas	2.38
V49	Difficulty in matching competitors' prices	2.37
V30	Risk and variations in exchange rates	2.32
V33	High insurance cost to cover products whilst in transit to foreign markets	2.27
V44	Corruption in the target market	2.17
V42	Unsuitable storage facilities for containers at the Lesotho railway terminal	2.14
V41	Inadequate container-handling facilities at the Lesotho railway terminal	2.14
V23	Lack of own internationally recognised brand names	2.02
V28	Difficulty in meeting foreign delivery dates	2.01
V31	Difficulty in supplying inventory abroad	1.99
V29	Difficulties meeting after-sales service to customers abroad	1.98
V50	Political instability in the foreign markets that the enterprise wishes to serve	1.94
V37	High cost of labour in Lesotho	1.89
V45	Political problems in Lesotho	1.77
V36	Low labour productivity in Lesotho	1.74
V26	The challenge of having to deal with foreign customers that have different cultural customs	1.67
V35	Restrictions on quantities allowed by foreign markets to enter their countries	1.59
V40	Poor telecommunication services	1.59
V18	Difficulty in meeting packaging requirements	1.58
V46	Industrial unrest in Lesotho resulting from employee strikes	1.56
V20	Unable to adapt the enterprise's products to export market's requirements	1.48
V17	Difficulty in meeting product quality standards	1.43
V24	Lack of acceptance of Lesotho's products in the markets the enterprise wishes to serve	1.34

that they play a pivotal role in the alleviation of poverty, job creation and economic rejuvenation. In Lesotho there are institutions such as the LNDC and the Basotho Enterprise Development Corporation (BEDCO), which are charged with export and investment promotion in the country. These agencies should ensure that local enterprises gain access to incentives that are mostly given to the large and medium enterprises, specifically those incentives that would influence their financial status, such as short-term and long-term loans, credit guarantee assistance offered to exporters, and import VAT credit facility for the local purchasing of raw material and capital goods.

Furthermore, with few jointly owned manufacturing enterprises in Lesotho, locally owned enterprises are denied the opportunity to access additional capital that foreign enterprises could bring into the venture. It also means that when foreign enterprises depart, they will not leave behind positive spillovers. Relationships between enterprises would normally form if each partner had something to offer. Whilst locally owned enterprises in Lesotho, owing to their limited capabilities and capacity, might not possess financial resources to bring into the joint venture, their local knowledge would still make them valuable to a joint-venture partner. However, the government should provide incentives to investors who opt for joint ventures so that locally owned enterprises could gain expertise and additional funds as a result of working with larger enterprises. Incentives could take the form of tax relief, low-interest loans, low prices on land leasing, as well as electricity and water incentives already widely in use in other countries.

Limitations and directions of future research

A limitation of this study was the lack of a reliable list of manufacturing enterprises in Lesotho, as this could have affected the extent to which the findings could be generalised to all Lesotho-based manufacturing enterprises. It meant that a non-probability approach had to be adopted in selecting the sample. Also, the use of a single informant in an enterprise could possibly be seen as a problem, as it could have introduced measurement error due to individual bias.

Future research could focus on determining why micro-enterprises perceive international constraints as severely as medium and large enterprises and not in line with those of small enterprises. Also, future research should investigate why the leather industry has lower perceptions of distribution constraints than enterprises from industries classified in this study as 'the rest'. It would also be of interest to investigate why almost 30% of enterprises that participated in the study were not interested in exporting.

Acknowledgements

Competing interests

The authors declare that they have no financial or personal relationship(s) that may have inappropriately influenced them in writing this article.

Authors' contributions

M.C.M. and J.V. (both for the University of Pretoria) equally contributed to the research and writing of this article.

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