ASSESSING THE INNOVATION CAPABILITY

OF SOUTH AFRICAN SMEs

IN PURSUING EXPORT OPPORTUNITIES

L. P. MBELE

2017

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BY

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Submitted in partial fulfilment of the requirements for the degree

MASTERS IN BUSINESS ADMINISTRATION

at the

Nelson Mandela Metropolitan University Business School

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April 2017

DECLARATION

I, Lindokuhle Peter Mbele (214358402), hereby declare that the treatise for Masters in Business Administration is my own work and that it has not previously been submitted for assessment or completion of any postgraduate qualification to another University or for another qualification.

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ACKNOWLEDGEMENTS

I would like to extend my earnest gratitude to the following people who have had invaluable contribution to the completion of this treatise;

- Doctor Vusi Msuthwana for his guidance, encouragement and understanding throughout the preparation of this treatise.
- My wife, Sthandiwe for her unfaltering love and support during the entire MBA programme.
- My parents Steven and Elsie it is your love of education that inspired me to come this far.
- My colleagues from Seda who provided support during my MBA programme, specifically Buntu, Lorato, Colin, Collen, Hilda, Katleho, Gwen and Sipho.
- The respondents who took part in the study and provided valuable insights about their business.
- Most importantly to God the Father Almighty for his grace, mercy and perseverance to see me through my studies in the face of many challenges.

Abstract

Innovation is broadly perceived as an important competitive enabler for any business that needs to survive, stay ahead and prosper. In turbulently and unpredictable global environments, the capability of the organisation to continuously innovate is a key contributor to sustained competitiveness. Innovation capability focuses on making certain that the organisation possess appropriate strategies, structures, culture, leadership techniques and resourcing strategies to bolster effective execution of innovation activities. Innovation can only occur if the organisation has developed innovation capabilities.

A number of South African SMEs continue to be reluctant to innovate and trade beyond the borders of their inherent country due to the risks which this involves. SMEs with sound innovation capabilities can make a significant contribution to a nation's competitiveness. Therefore investment in understanding an organisations innovation capabilities and the factors that contribute to successful innovation is necessary. This study assessed the innovation capabilities of South Africa SMEs and their ability to pursue export opportunities. The intention was to gain understanding on how innovation can be used by South African SMEs to improve exports opportunities.

The findings revealed that only two thirds of the South African SMEs possess innovative capabilities. The observation was made that some SMEs believe that they are innovative even though they do not have innovative capabilities. Factors that contribute to improved export includes the ability to negotiate export transaction with international partners, the ability to adapt to changing export markets and the ability to meet export demands. These findings present an opportunity for SMEs to continuously assess their innovation capabilities and put measures in place to improve their innovation output and frequency. Globalisation threatens the former safe markets for local businesses, therefore for SMEs to be sustainable, grow and be competitive they should focus on creating innovative products that are marketable globally and continuously seek new markets.

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CHAPTER 1

SCOPE OF THE STUDY

1.1 INTRODUCTION

Innovation is widely recognised as an essential competitive enabler for any organisation that wants to remain competitive, survive and grow (Du Preez, Louw & Essmann, 2009). The phenomena of innovation and exporting has been recognised as the key driver behind the advancement of small and medium-sized enterprises (SMEs) and appear to be indisputably linked (Lecerf 2012:2; Louart & Martin 2012; Palangkaraya, 2012). Innovation and exporting also play a significant role in improving the economic structure, attracting investment, solving the unemployment problem, increasing foreign currency inflows and expanding foreign relations (Nguyen, 2012:51).

Du Preez, et al. (2009) point out that, the importance of innovation is acknowledged by most enterprises, yet a large number of these initiatives do not generate satisfactory profits or competitive advantage. Moreover, as organisations become increasingly focused on innovation, the execution obstacles for achievement are increased considerably (Lawson and Samson, 2001). Many South African SMEs are reluctant to innovate and trade beyond borders of their inherent country because of the risks which this involves (Van Eldik and Viviers, 2005:1). However, increasingly South African SMEs are starting to expand globally and predominantly they select export as their internationalisation strategy (Majocchi and Zucchella, 2003:252).

Exporting is therefore considered the first significant phase towards internationalisation (Lu & Beamish 2001:568) and is the key approach for SMEs to enter foreign markets (Wolff & Pett, 2006). Karabulut (2013:68) suggest that SMEs enter foreign markets to search for new markets and customers for their growth and survival. It is increasingly recognised that SMEs with strong innovation capabilities can make a valuable contribution to a country's competitiveness (Romijn & Albaladejo, 2002). Investment in understanding organisations' innovation capabilities and the factors that contribute to successful innovation is required (Saunila & Ukko, 2012). Client retention and improved service offering is highly dependent on the ability to provide innovative

services and solutions in a more efficient and effective manner compared to competitors (Žitkienė, Kazlauskienė, & Deksnys, 2015).

International competition requires innovation that is knowledge based. Therefore, in a dynamic technological and market environment, where there are many drivers of change and innovation that are mutually influencing each other, a thorough analysis of these drivers is an essential step for building and sustaining competitive edge in the marketplace (Halemane & Janszen, 2004:38). It is for these reasons that the importance of innovation and exporting as drivers of growth, has long been established in various research endeavours. In this study, it is therefore envisaged that a methodical analysis of the SMEs innovation capabilities will provide information about whether such innovation capabilities could be used to promote their export opportunities.

1.2 BACKGROUND OF THE STUDY

Innovation is the key foundation of competitive advantage, however this advantage is not easily acquired (Atoche, 2007). Innovation management literature does not appropriately clarify the development of innovation capabilities in the business (Baark, Lau, Lob & Sharif, 2011; Esterhuizen, Schutte & Du Toit, 2012 and Du Preez, et al., 2009). These authors consider that organisations already possess these capabilities and focus on the optimisation of the innovation process. The organisations capability for innovation determines how productively it can utilise its resources for learning and innovation, in order to achieve competitiveness over other organisations with similar resources but with less innovation capability (Nisula and Kianto, 2013).

From the perspective of Van Eldik and Viviers (2005:3), participation in the international marketplace affords businesses with opportunities to improve their overall competitiveness. By offering their products globally, a business enterprise can gain insights into customer requirements, competitor activity and different ways of doing business, all of which could give the business with a significant amount of learning experience (De Clercq, Sapienza & Crijns, 2005:409).

Despite the fact that it is hard to make speculations, as much relies on upon the business enterprise's position and the environment it operates in, certain determinants of export undertakings can be identified as networking (Tooksoon and Mohamad 2010); business innovation (Dubey and Bansal 2011); and business intelligence practices (Amabile et al., 2013:103), to mention just a few.

In turbulent and unpredictable global environments, the capability of the organisation to change and adjust its resources and routines in an agile manner is a key variable affecting its sustained competitiveness (Nisula & Kianto, 2013). It is an acknowledged fact that the concept of internationalisation requires solid financial ability and should be addressed under the background of a global context. Amabile, Laghzaoui, Peignot, Peneranda and Boudrandi (2013) recommend that management must be willing to allocate adequate funding for innovative and export activities to occur. As is the case with all businesses, SMEs that want to break into exporting will require funding for working capital, product modification, medium-term credits to foreign customers, general exporting operations, such as communication and travel, amongst others (Van Eldik & Viviers, 2005:3).

Management's view of export advantages is understood to be a vital determinant of export performance (Babakhani & Alizadeh Haji 2011:23). Management that has a global vision, favourable perception and attitudes toward exports which is willing to take risk and has the capacity to engage positively in export activities is likely to lead a business enterprise to export success (Burpitt & Rondinelli 2000). In any case, strategic and managerial skills are a scarce resource in SMEs and may require a combination of internationalisation and innovation to enhance the growth of a business, as SMEs dependent on individual entrepreneurial actions that allow them to develop innovation (Zawislak, Borges, Wegner, Santos & Castro-Lucas, 2008:27).

Consequently, every organisation approaches business innovation differently. Some authors of academic literature believed that business innovation is brought by the entrepreneurs' focus on investing in research and development (Zawislak, et al., 2008:18). Suciu, Ivanovici and Neagu (2009:1315) outline that the concept of business

innovation incorporates a more extensive scope of activities, such as, building new business processes and models, creating new markets for new needs and new customers, innovating technologies and strategies. Khomba, Vermaak and Gouws (2011:5) suggests that African beliefs, social and cultural values could be conceptualised into a new African innovation perspective through Ubuntu (a Nguni Southern African term meaning ‘human kindness’).

However, Vanhaverbeke (2013:6) has insightfully documented that innovation can also be realised in situations where organisations do not develop new products and services, themselves. Accordingly business innovation could incorporate a range of activities, which this study tries to dissect in the entrepreneurial perspective. An entrepreneur's core characteristics are therefore change, innovation, creation and identification of new opportunities (Leko-simic and Horvat, 2010:316). Zawislak, et al. (2008:18) contend that, behind the organisational structure and innovation processes, there is the vision and appetite to run risks. Moreover, the most important entrepreneurial attributes such as creativity and risk propensity, have been acknowledged by some researchers as critical for entrepreneurial success (Nieuwenhuizen and Groenewald, 2006:70).

Although technological expertise gives SMEs the ability to identify environmental opportunities and enables efficiency through the development of new products or processes, Akman & Yilmaz (2008) believe that successful SMEs do not have to be high-technology businesses, but need to obtain relevant information about the international market so that they can embark on a process of continuous design and radical innovation in that market.

From the business' perspective, innovation provides a momentary competitive advantages because it allows the monopoly in the exploration of a new market (Zawislak, et al., 2008:17). Bilton (2007:4) point out that, every business needs to participate in the process of creativity that constantly transforms the economic structure and creates new features. If new products and processes constantly

substitute the old ones, it is only the innovative business that will be able to survive in this highly disruptive markets.

From the work of Kotabe, Srinivasan and Aulakh (2002); Zhang, Tansuhaj & Mcculluogh (2009) and Nguyen (2012:51) a consensus could be established that one of the elements for the enterprise's success in exporting is the business's innovation capabilities. These innovation capabilities of an enterprise contribute to creating competitive advantage, guaranteeing operational efficiency for international markets. It is for these reasons, therefore, that SMEs must identify and use their entrepreneurial spirit to develop a continuous creation of innovation culture within their enterprises if they want to survive in the international markets.

1.3 PROBLEM STATEMENT

South African businesses exploit about 20% of their potential export relationships, compared to China and Germany businesses, which are at 70% each. SMEs with export potential should be expanding their market beyond South African borders, as this will increase the number of exporting businesses and reduce reliance on few super exporters who are declining (World Bank, 2014).

The study argues that, if South African SMEs are innovative they should be able to compete globally through their export activities. This leads to the question that this study seeks to address:

How can innovation be used by South African SMEs to improve export opportunities?

According to Higón and Driffield (2011), various empirical studies have emphasised the role of innovation as an important determinant of export performance; however, evidence based on small enterprises is not as conclusive. In South Africa most SMEs with export potential are not exporting and those who do, are exporting on an irregular basis and their activities are not properly coordinated (Rankin, 2013).

Love and Roper (2013) mention that the evidence for productivity benefits from exporting is somewhat mixed, where some studies suggests that entry into exporting results in productivity benefits, while others fail to find any relationship. The empirical research on the determinants of export performance are numerous but there are still limited studies concerning the internationalisation process of SMEs and the contributing factors that leads to their success (Higón & Driffield, 2011).

1.4 THE RESEARCH QUESTIONS

The above-mentioned problem statement leads to the following research questions:

- How innovative are South African SMEs?
- Do South African SMEs invest in innovation?
- Do South African SMEs see the benefit from innovation?
- Do innovative South African SMEs pursue export opportunities?
- What can be done to encourage non exporting SMEs to pursue export opportunities?

1.5 THE RESEARCH OBJECTIVES

Although there has been much research interest in the determinants of export activity of individual business, there is limited existing research on the analysis of innovation capabilities of SMEs to pursue export opportunities. Hence the most important issue on the success of exporting, as this study seeks to pursue, is to determine the critical innovation factors that would constantly transform the economic structure of the business and create new features for competitive advantage when trading on the international market.

The purpose of the study is thus to analyse SMEs' export innovation capabilities through their entrepreneurial competitiveness, revealing whether these innovation capabilities could be used to promote their level of exports. The information obtained in this study will provide guidance to small business owners and supporting agencies with strategies to be adopted to encourage SMEs to pursue the export market by focusing on innovation in order to gain competitive advantage.

In order to achieve the abovementioned objective, the following secondary objectives are formulated:

- To conduct an extensive literature review on the innovation capabilities of South African SMEs to export;
- To develop a questionnaire which comprises instruments to measure the above-mentioned variables;
- To draw a convenient sample of a minimum of 534 South African SMEs which are exporting and those with interest to export nationally;
- To analyse the data using the IBM SPSS 24 computer software programme;
- To record and interpret the empirical results; and
- To draw conclusions, provide managerial recommendations and indicate research gaps for future research.

1.6 THE HYPOTHESES

The following hypotheses are formulated to investigate the proposed relationships between the SMEs variables in the conceptual framework:

H1: Influence of export opportunities on innovation capabilities.

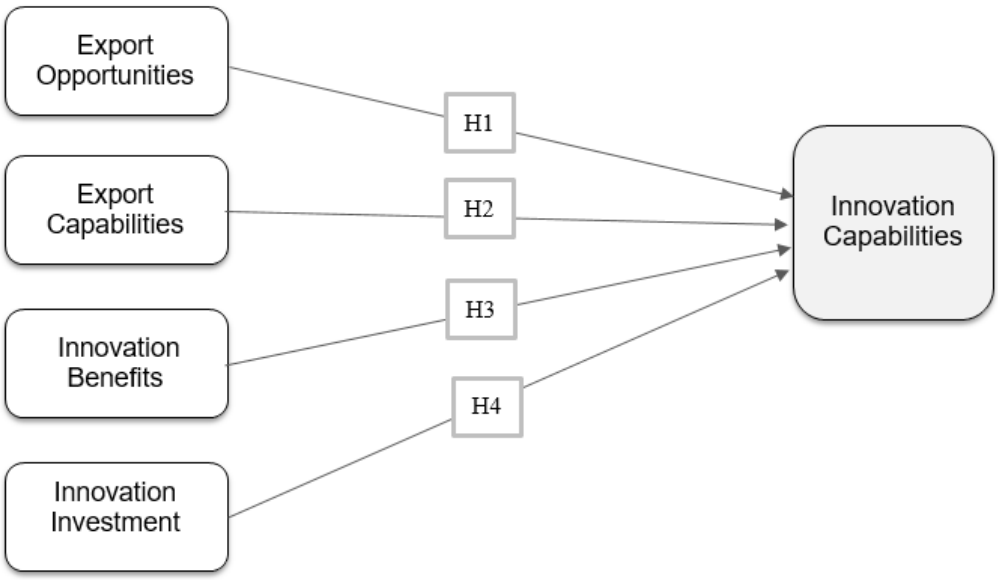
H2: Influence of export capabilities on innovation capabilities.

H3: Influence of innovation benefits on innovation capabilities

H4: Influence of innovation Investments on innovation capabilities

The above-mentioned relationships are graphically depicted in Figure 1.1. below,

Figure 1.1: The hypothesised model for SME Innovation Capabilities



Source: Own construction

1.7 SIGNIFICANCE OF THE STUDY

Infant and non-exporting SMEs with intentions of pursuing export opportunities can benefit from the knowledge generated in this study. The study outlined potential opportunities that SMEs can realise by focusing on innovation when pursuing export opportunities. If South African SMEs see the value of investing in innovation in order to improve their level of export, South African economy will be on a path to follow countries like China and Germany who are currently exploiting about 70% of their potential export relationship.

South Africa will benefit if more SMEs are engaged in export, as this will have positive spin-off for domestic competition. Thus internationally competitive SMEs can absorb unemployed citizens and this will also improve the country's trade balance, which currently indicates that South Africa is importing more that it is exporting. The ideal situation is where South African SMEs will envision their products being made available in international markets through investing in innovation. The objective is to highlight the benefits that SMEs can derive from investing in innovation in order to expand their market internationally.

1.8 RESEARCH DESIGN

1.8.1 Research Methodology

In this study the objective is to identify South African SMEs innovation capabilities to respond to export opportunities. Through this approach common issues that are presented by SMEs in relation to their innovation capabilities, will be noted. The assumption is that if identified issues are addressed, many SMEs will be armed with tools that they can use to improve their level of innovation. This will improve their product attractiveness and expand their offerings to other countries. Based on this objective, it follows that the research needs to be quantitative in nature, as a large number of responses are required to aggregate and find common factors which are contributing to SME innovation capabilities.

In different studies conducted in various countries to understand the contribution of innovation on SMEs exports, a quantitative approach was used (Love & Roper, 2013; Suárez-Porto & Guisado-González, 2014 and Higón & Driffield, 2011). From these studies data collected was aggregated to find the most common factors which are contributing to improved exports. This study also followed this pattern and adopted the quantitative research methodology.

1.8.2 Sampling Design

The population for this study included SMEs who are registered on the Seda (Small enterprise development agency) and Department of Trade and Industry (DTI) database who are exporting and those who have expressed an interest to export. This approach ensured that the sample selected from these databases was manageable. This was done to ensure that the targeted SMEs are able to give relevant responses on their business level of innovation and on factors relating to export opportunities.

The sample size consisted of 534 SMEs and a convenient sampling technique was used to select the sample from the population. This technique ensure that targeted SMEs reflect an even spread across all provinces within South Africa. Some provinces had a higher number of clients due to their level of interest in exporting compared to the others.

The sample also reflected all key sectors where SMEs are active in pursuing export opportunities. Some of these SMEs are currently exporting while others are not yet exporting but have expressed an interest in exporting. The respondent to the questionnaire were business owner, top management, senior management, export official, with adequate knowledge about the business.

1.8.3 Data Collection

The questionnaire was developed online by using a Digium survey tool. This questionnaire was sent to the respondents via an email link; respondents opened the link and selected options which are applicable to their business. Upon completion of the questionnaire online, the information completed was sent back to the researcher for consolidation and analysis. Respondents' details were obtained from Seda and DTI databases where the SMEs expressed their interest to pursue export opportunities.

1.8.4 Measuring Instruments

The questionnaire was used to capture responses from the respondents. The questionnaire was developed by integrating various instruments that were sourced through the literature review. In order to ensure reliability and the validity of the survey tool, a pilot study was conducted.

1.8.5 Data Analysis

Data collected was analysed by using IBM SPSS 24 analysis software, the outcome of the analysis determined the SMEs innovation capabilities and how they can use those capabilities in pursuing export opportunities.

1.9 OUTLINE OF THE STUDY

Chapter 1 – Introduction, problem statement and the objective of the study

Chapter 2 – Literature review on innovation

Chapter 2 – Literature review on export opportunities and export capabilities

Chapter 4 - Research methodology

Chapter 5 - Analysis and interpretation of the results

Chapter 6 - Summary, Recommendation and conclusions

1.10 SUMMARY

This chapter provides an introduction to the study and highlights the problem that the researcher intends to solve. A brief background of the study is shared as well as key research questions and research objectives. Four hypotheses relating to innovation capabilities are presented and the researcher gives a brief methodology on how the study was undertaken. The following chapter will expand on the previous literature reviewed on different studies in innovation.

CHAPTER 2

LITERATURE REVIEW ON INNOVATION

2.1 INTRODUCTION

This chapter focuses on innovation and the intention is to understand the role of innovation in improving an SME's competitive advantage. A brief overview of innovation is presented and factors that contribute to improved innovation for export markets are shared. Innovation capabilities that highly competitive SMEs should possess are also identified, while support structures to ensure that identified capabilities are nurtured, are also shared. The benefits of innovation for SMEs and the investments required in order to ensure that innovation is sustained are also presented.

2.2 INNOVATION OVERVIEW

Organisational capabilities related to innovation are central to continued corporate survival (Lages, Silva & Styles, 2009). Innovation requires an organisation to critically evaluate its operational routine, then thereby generate, accept and implement innovative ideas (Raymond, St-Pierre, Uwizeyemungu & Le Dinh, 2014). The development of product and process innovation capabilities is thought to be a prerequisite for SMEs' entry into foreign markets and it gives them an advantage to prosper in the national markets. Therefore, superior market innovation capabilities are potential foundations for sustainable competitive advantage (Oke, 2007).

In the current complex and turbulent environment the need for innovation in products and processes is widely recognised (Massa & Testa, 2004). Businesses are fast realising that, in order to stay ahead, they need to innovate continuously and the speed of innovation is what differentiates winners from the losers (Srivastava, 2015). Massa and Testa (2004) point out that the need for innovation is more prominent in the services sector, where in the absence of a concrete productive structure, innovation is faster and competition is harder and increasingly global in nature.

Innovation seeks not only to do things better, but more important differently (Lindgren, Saghaug & Knudsen, 2009). Van der Duin and De Graaf (2010) view innovating as an indeterminate activity and this unpredictability is not just identified with what innovation might look like in the future, additionally to the indeterminate future environment in which the innovation will be advanced. Wu and Sivalogathasan (2013) argue that innovation depends heavily on knowledge, therefore the capability of an organisation to manage knowledge effectively becomes a prerequisite for success and innovativeness.

Baregheh, Rowley, Sambrook and Davies (2012) observe that innovations vary considerably in their nature. Innovation can mean many different things depending on the organisation's unique perspective (Srivastava, 2015). Coakes and Smith (2007) outline that innovation is the way toward bringing critical thinking into utilisation. Mothe and Thi (2010) proposes that innovation refers to the selection of an idea, behaviour, framework, approach, program, device, process, product or service that is new to the organisation. Baregheh, et al. (2012) recommends that innovation is the multistage process whereby organisations alter accepted wisdom into new or enhanced products/ services or processes keeping in mind the end goal to compete and differentiate themselves effectively in their marketplace.

Innovation is the process of bringing new solutions to market that ensures differentiation and improve business value. Innovation range from incremental to disruptive and it can impact products, services, strategies, processes and systems, (Hall & Smith, 2012). Disruptive innovations often create obsolescence, whereas incremental innovations normally focus on making enhancements that result in new solutions with value to the marketplace (Coakes & Smith, 2007). Massa and Testa (2004) observe that some disruptive innovation happens on a smaller scale, while certain incremental innovations have a substantial impact.

O'Cass and Weerawardena (2009) define innovation to include both improvements in technology and better methods or ways of doing things. Further outlines that innovation manifests itself in product and process changes, new ways to deal with promoting, new

forms of conveyance and new commencements of scope. Hall and Smith (2012), innovation does not occur in a vacuum, sustainable innovation requires a transfer of ideas, perspectives and fortes. There is confirmation that organisations embrace all types of innovation and for the most part organisations utilise four kinds of innovation, including product, process, market and business systems (O'Cass & Weerawardena, 2009).

Innovation does not only imply introduction of new products but also signifies introduction of a new idea, method, brand, business model, offering, process or channel (Baregheh, et al. 2012). It is clear that different researchers focus on different elements of innovation but concur with Loewe and Chen (2007) that innovation is all about coming up with new products, processes and services. Van der Duin and De Graaf (2010) caution that, what may seem as a good idea initially, is not guaranteed to result in a successful innovation in the future.

2.3 INNOVATION FOR EXPORT MARKETS

Access to foreign markets can provide innovative businesses with learning opportunities and improved performance, through market diversification (Innovation policy platform, 2016). Successful innovation may push productivity or help organisations to find a greater demand in foreign countries (Castro-Lucas, Diallo, Leo & Philippe, 2012). Hessels (2007) mentions that the innovativeness of SMEs is likely to affect the likelihood, or inclination of enterprises, to export. This is due to the fact that innovation may improve the international competitiveness of an enterprise.

Exporting helps organisations to understand trends in demand for products and services. Therefore, organisations must learn to recognise demands in targeted markets and adjust their products and services to reflect them (Innovation policy platform, 2016). Hessels (2007) observed that product innovation is an essential factor in explaining the entry and success in the export markets, whereas, service innovation mainly gives the organisation a service advantage which may yield improved international performance (Hessels, 2007).

Organisations must satisfy increasingly global clients demanding world prices motivated by international competition, in such circumstances, the quest for lower costs and improved quality is often supported by innovation (Castro-Lucas, et al. 2012). Hessels (2007) observe that new countries are emerging on the world's economic scene and anticipation for better adapted and more localised products are more evident. This results in increased pressure which therefore requires more radical innovations to be implemented (Kaufmann & Todtling, 2002).This is particularly important for innovative organisations since they must continually innovate and keep up with new technology in order to participate in the global value chain (Innovation policy platform, 2016).

Castro-Lucas, et al. (2012) mention that innovative organisations have a greater propensity to export if they are operating as a group, since each member of the group learns about the export environment in which they are operating and transmit gained knowledge to the whole group. Organisations have the opportunity to learn from different innovation systems and cultures, when they are exporting to different countries, thus impacting their innovation potential positively (Srivastava, 2015).

The ongoing process of globalisation raises the importance of innovation in the whole SME sector because it makes it possible for competition to invade formerly safe market niches (Faustino, Lima & Matos, 2012). The region is important in the innovation process of SMEs as their external relations are more confined to the region. SMEs have better support for innovation in the region because of the necessity to have face-to-face interaction to exchange tacit knowledge and to collaborate in joint innovation projects (Kaufmann & Todtling, 2002).

The Organisation for Economic Cooperation and Development (OECD, 2004) for many organisations gaining access to international markets is a strategic instrument for their competitiveness and their further advancement. O'Cass and Weerawardena (2009) observe that highly entrepreneurial SMEs challenge the customary way of thinking by specifically entering worldwide markets with innovative products. Interaction, networking and partnering across different parts of the business are critical in

supporting innovation (Stewart & Fenn, 2006). Hall and Smith (2012) propose that there are two particular channels by which innovation influences exports. The first one is the direct channel, where the organisations perform innovations to supply the foreign markets with new products or improvements of the existing products. The second one is the indirect approach, where external economies overspill impacts from innovative organisation to other organisations who are in the same industry.

O'Cass and Weerawardena (2009) contend that SMEs with just a single or two innovations are more averse to export and more inclined to service the domestic market. Be that as it may, this view is progressively being tested by the developing number of born global SMEs, who are entering international markets with highly innovative products, which at times supersede the domestic markets (Diedrichs, 2013). Access to international markets offer a number of business opportunities for example, new specialty markets, possibilities to exploit economies of scale, increased scope, improved volume and the upgrading of technological capability, methods for spreading risks, reducing and sharing expenses and in most cases affording enhanced access to funding (OECD, 2004).

The organisation needs to figure out whether it has the knowledge and skills to venture into new international market. Starting such an undertaking on a smaller scale enable the organisation to learn and develop of the required skills and knowledge (Van der Duin and De Graaf, 2010). SMEs capabilities to innovate driven by management's desire to export will pave a path to profitable growth (Diedrichs, 2013).

Pro-active project management is an absolute necessity when embarking on an international venture by focusing on innovation. Legal requirements relating to product certification and export can become a hindrance for an organisation if not considered with the right level of acuteness. Furthermore, inherent behaviours, practises and preferences should be considered during the development of the new product or service including the sales and distribution channels (Diedrichs, 2013).

2.4 INNOVATION CAPABILITIES

Lawson and Samson (2001) observe that, in the past, competitive advantage rested on standard conventional variables like efficiency, quality, customer responsiveness and speed. However in the new millennium, control over these variables represents the minimum attributes that an organisation must possess to survive the global competition. Innovation is essential in achieving organisational competitiveness and long-term wealth in this unpredictable business environment (Esterhuizen, Schutte & Du Toit, 2012). With innovation being perceived as an enabler in creating and sustaining competitive advantage, it has become important for organisations to proactively endeavour towards consistent and persistent innovation (Du Preez, et al. 2009).

Today's organisations face an additional challenge and the requirement to innovate more often, quickly and with a solid success rate (Lawson & Samson, 2001). Branzei and Vertinsky (2006) indicate that innovation captures the essence of entrepreneurial activity and highlight that innovativeness is determined by the organisations set of capabilities, which helps to build, integrate and reconfigure internal and external competencies to address rapidly changing environments by synthesising, transferring, reconfiguring and redeploying different skills and resources.

Innovation capability measures the approach in which enterprises can generate innovation outputs, as such enterprises must assess and improve their innovation capability to sustain repeat and accelerate innovation initiatives (Esterhuizen, et al., 2012). A well-defined and managed innovation process should serve as the backbone of any innovation capability improvement programme (Du Preez, et al., 2009).

2.4.1 Innovation capability definition

In the context of dynamic environments the most important capability is the organisations innovation capability (Adams, Alexander & Öberg, 2014). However, the term innovation capability suffers from a lack of consensus over its definition and so has been subject to criticism (Momeni, Nielsen & Kafash, 2015). An organisation's innovation capacity can be thought of as the potential to generate innovative outputs

(Atoche, 2007). Innovation capability refers to the ability to make major improvements and modifications to existing technologies and to create new technologies (Abereijo, Ilori, Taiwo and Adegbite, 2007).

Nielsen, Nielsen, Bamberger, Stamhus, Fonager, Larsen, Vinding, Ryom and Omland (2012) define innovative capabilities as the ability to mobilise the human and organisational resources and bring problem-solving ideas that are new to the firm into practical use by implementing them. Adams et al. (2014) define innovation capability in terms of the application of resources to continuously transform knowledge and ideas into new products, processes and systems for the benefit of the firm and its stakeholders.

Innovation capability is defined as the ability to create new and useful knowledge based on previous knowledge (Atoche, 2007). Innovation capability consists of internal reinforcement procedures and processes, and the concept of capability is not a performance parameter, but an index which assesses the level of preparedness of the firm and the development through innovation forces (Momeni, et al., 2015). Innovation capabilities are the ability to absorb, adapt and transform a given technology into specific managerial, operational and transactional routines that can lead an organisation to achieve Schumpeterian profits (Zawislak, Alves, Gamarra, Barbieux & Reichert, 2011).

Innovation capability can be described over a wide scope and at the various levels on which it meets the requirements of a firm's strategy, adapts to various conditions and a competitive environment (Saunila, Ukko & Rantanen, 2012). Adams et al. (2014) present innovation capability as the skills and knowledge needed to effectively absorb, master, and improve existing technologies and to create new ones. Innovation capability is the ability to achieve innovative outcomes by successfully exploiting and implementing more and better ideas than rivals (Baark, Lau, Lob & Sharif, 2011). Guan and Ma (2003) propose that innovation capability is the ability to mould and manage multiple capabilities.

Atoche (2007) mentions that other innovation studies have identified that one critical factor, in order to create innovation capability, is the accumulation of technological capabilities. Du Preez, et al. (2009) summarise different views and suggest that an organisation must have an innovation capability before it can expect to see regular innovative output, but being capable of innovation does not ensure innovative output. An enterprise must be able to innovate and do so constantly and sustainably if they are to function competitively (Saunila, Ukko & Rantanen, 2012). Bukhamsin (2015) outlines that innovation capability presents the level of organisation inventiveness and emphasises the connection between exports and innovation capacity.

2.4.2 Innovation capability measurement

Romijn and Albaladejo (2002) point out that a variety of internal and external factors may contribute to innovation capability, where internal factors includes employees skills and knowledge, internal learning, investments in research and development, experimentations, product adaptation and modification, processes and in-house staff training. External factors includes interaction with suppliers, customers, public institutions and industry associations and this interaction is used to gather information about technologies and markets and also for obtaining various inputs to complement the internal learning process (Abereijo, et al. 2007).

Momeni, Nielsen and Kafash (2015) explain that the innovation capability of an organisation is not the result of single abilities but a collection of abilities and other capabilities, therefore organisations should take advantage of their internal capabilities and focus on the development of new capabilities and reconstruction of the existing capabilities. Dynamic capabilities emphasise management capabilities and inimitable combinations of resources that cut across all functions, including research and development, product and process development, manufacturing, human resources and organisational learning (Lawson & Samson, 2001).

Innovation capability is a complex technological, social, and economic process, therefore it is not measured through one or two factors, as no factor could be effective alone (Adams, et al., 2014). Innovation capability is proposed as an integration

capability, which brings together and manages multiple capabilities. Organisations possessing this innovation capability have the ability to integrate key capabilities and resources of their organisation to successfully stimulate innovation (Lawson & Samson, 2001). Momeni et al. (2015) indicate that innovation capability enables provision of innovative products and services through continuously exploiting organisational capabilities, capacities and competencies. Table 2.1 below presents innovation capability indices which have been classified into three groups: Structural Capability, Personnel Capability and Operational Capability.

Table 2.1: Indices for innovation capabilities

Concept	Dimension	Component	Index
Innovation Capability	Personnel Capability	Opportunity Detection Capacity	Business environmental surveys
			Accuracy, Attention, Intelligence
		Idea Generation capacity	Creativity
			Practicality
		Individual Knowledge Capability	Knowledge
			Experience
	Structural Capability	Managerial Capacity	Strategy and goals
			Management style
			Stability of management
			Resource availability
		Cultural Capacity	Flexibility

			Diversity
			Risk Acceptance
		Communicative Capacity	Networking
			Cooperation
		Organisational Knowledge Capacity	Organisational learning
			Knowledge storage
			Knowledge absorption
			Information systems
	Operational Capacity	Technological Capacity	Research and development
			New technology
		Support Capacity	Logistics
			Work Place

Source: Momeni, et al. (2015)

Innovation capability can be described over a wide scope and at the various levels on which it meets the requirements of a firm's strategy, adapts to various conditions and a competitive environment (Saunila & Ukko, 2012). Adams, et al. (2014) present innovation capability as the skills and knowledge needed to effectively absorb, master, and improve existing technologies and to create new ones.

Table 2.2 presents the evolution of innovation capabilities measurements over the years. Momeni, et al. (2015) indicate that the presented elements exist to some degree within innovative organisations and the stronger the innovation capability possessed by an organisation, the more effective will be their innovation performance. Nisula and Kianto (2013) indicate that there is a positive relationship between innovation

performances and enhanced organisational performance, and further add that innovative organisations are more profitable and valued at a premium by the share market relative to their less innovative counterparts.

Table 2.2: Dimensions of innovation capability

Study	Dimensions of innovation capability
Freeman (1999)	**Internal Management Responsibilities**: • Collaborative Process • Performance Measures • Education & Development • Distributed Learning Network • Intelligence Market Positioning **External Organisational Interfaces:** • Knowledge Products and Services • Collaborative Market Penetration • Market Image Campaign • Leadership Competencies • Communication Technology
Lawson and Samson (2001)	• Vision and strategy • Harnessing the competence base • Organisational intelligence • Creativity and idea management • Organisational structure & systems • Culture and climate • Management of technology
Smith et al. (2008)	• Management style and leadership • Resources • Organisational structure • Corporate strategy

	• Technology • Knowledge management • Employees • Innovation process • Organisational culture
Kalvarskaya (2009)	**Financial capital innovation capabilities:** • The economic efficiency of innovation activity **Human innovation capabilities:** • The ability to motivate staff to innovate and to apply its innovation **Information innovation capabilities:** • The ability to make use of different information sources **Innovation process capabilities:** • Effectiveness and speed of the innovation process **Strategic values innovation capabilities:** • The ability to develop and maintain a shared vision **Cooperation capabilities:** • The quality and effects of cooperation with external agents
Baark et al. (2011)	• Learning capability • Research and development capability • Resource allocation capability • Manufacturing capability • Marketing capability • Organising capability • Strategic planning capability

Saunila and Ukko (2012)	**Innovation potential:** • Factors that reflect current potential to innovate (including, leadership and decision-making processes, organisational structures and communication, collaboration and external links, organisational culture and climate, and individual creativity and know-how) **Innovation processes:** • The systems and activities that organisations utilise to realise current innovation potential. **Innovation output:** • The results of innovation activities
Saunila et al. (2012)	**Exploitation of external knowledge:** • Absorptive capacity, Social networks, Structural holes **Innovation structures:** • Openness, Functionality, Tools, Feedback, Rewards **Culture:** • Trust and respect, Tolerance of ambiguity, Learning from failures **Leadership:** • Participation, Decentralised decision making, Motivation **Individual Innovation capability:** • Creative thinking, Readiness for change, Empowerment

Source: Adams, et al. (2014).

Adams, et al. (2014) observe that innovation capability dimensions presented in table, could be grouped into five key dimensions which are; Organising of innovation (with indexes such as, climate, communication, culture, organisational intelligence, structure, systems); strategy (with indexes such as, corporate strategy, management style and leadership, performance measures, vision); processes (with indexes such as, decision-making processes, internal collaborative processes); learning (with indexes such as, distributed learning networks, know-how, knowledge management; knowledge of products and services); and linkages or networks (with indexes such as, collaborative market penetration, external links).

The literature highlights that different studies conducted to understand organisational innovation capabilities present different configurations of capabilities, which may be required to deliver different types of innovation. This is also in accordance with Bukhamsin (2015) observation, that various scholars emphasise different dimensions of innovation capabilities. It is clear that the notion of innovation capability encompasses a broad range of activities directed toward the purpose of adding value and competitive advantage (Adams, et al, 2014).

2.5 INNOVATION BENEFITS

Successful implementation of any innovation requires an understanding of its benefits and costs (Bunduchi, Weisshaar & Smart (2011). Business managers encourage innovation because of the value it can capture. Essentially, innovative employees increase productivity by creating and executing new processes, which in turn may increase competitive advantage and provide meaningful differentiation. Innovative organisations are inherently more adaptable to the external environment and this allows them to react faster and more effectively to avoid risk and capture opportunities (Boundless, 2016).

Bunduchi, et al. (2011) argue that literature is often vague in defining exactly which benefits are being realised by innovation, often considering them only in terms of superior organisational performance. From a managerial perspective, innovative employees tend to be more motivated and involved in the organisation, for that reason

empowering employees to innovate and improve their work processes provides a sense of autonomy that boosts job satisfaction (Boundless, 2016). Empowering employees to engage in broader organisation-wide innovation creates a strong sense of teamwork and ensures that employees are actively aware of and directly contribute to the organisational objectives and strategy.

The benefits of innovation includes: improved productivity and reduced costs, which might be achieved by improving the production capacity and flexibility of the business to enable it to exploit economies of scale. Better quality products and services are more likely to meet customer needs, if they are well marketed, that should result in higher sales and profits. Another benefit includes building a wide range of product, because a business with a broader product range provides an opportunity for higher sales and profits and also reduces the risk for shareholders. Innovation might enable the business to reduce its carbon emissions, produce less waste and also comply with changing product legislation (Tutor2u, 2016).

Positive outcomes from innovation include time and cost-efficiencies and effectiveness, full utilisation of innovation capacity and capability, increased productivity and reduction of process errors and improvements in profit ability, customer service and employee morale (Bunduchi, et al., 2011). Managers who promote an innovative environment can see value through increased employee motivation, creativity, and autonomy; stronger teams; and strategic recommendations from the bottom up (Boundless, 2016). Innovative businesses have a reputation for being inspiring places in which to work, which results in improved staff retention, motivation and easier recruitment. (Tutor2u, 2016). Table 2.3, below identifies some of the innovation benefits identified by different authors.

Table 2.3: Innovation Benefits

ECON-IT2	Business
Profit/margins increase	Innovation can be a profit centre, it can help drive sales and results
Increase of competitive advantage	May lead to competitive advantage.
Satisfying consumer needs	Increased customer satisfaction
Use of new business opportunities	Business agility
Markets development	Encourages and supports diversity
Product diversification and differentiation	Having more efficient and effective work processes
Personalised services	Compliance with legislation and possible tax benefits
Securing a market strategic position	Saving time and money
Keeping or increasing market quota	
Use of economies of scale	

Source: ECON-IT2 (2016) and Boundless (2016)

Managers can realise innovation benefits by providing top-down support to employees, providing clear roles and responsibilities while allowing individuals the freedom to pursue these as they see fit. Human resources and information technology departments should be supported to enable them to provide training and tools for higher employee efficiency, which can contribute substantially to a culture of internal innovation. This drive requires open-minded and motivational leaders who are capable of steering employee efforts without diminishing employee creativity (Boundless, 2016).

2.6 INNOVATION INVESTMENT

A common characteristics of innovative organisations is that they do not accept that the historical way of producing products or providing services, should be projected indefinitely into the future (Stewart & Fenn, 2006). They understand that an enabling culture, structure and continuous learning is a prerequisite for achieving cutting-edge solutions (Palm, et al. 2015). Innovative organisations focus on integrative culture, which enables innovation to emerge continuously (Baregheh, et al. 2012).

Innovative organisations are competitive, they continue to ascend to the next level and they continuously break new ground (Dobni, 2008). Organisational leaders understand that it is not the organisation that is innovative, rather its people through their thoughts and action who enables the organisation to be innovative (Fowles & Clark, 2005). These organisations possess a culture that is proactive and market driven and employees know why they are at the top of their game (Sousa, 2006). Dobni (2008) point out that innovative organisations have made sacrifices in the past in order to become innovative, and as a result they are benefiting from such decisions.

Chapman, Deschamps and Chapman (2007) observe that two prominent differences existed between the organisations that are successful at innovation and those that are not innovative. Innovative organisations had far less crisis mentality compared to non-innovative ones and leaders of the non-innovative organisations seemed to be more devoted to a particular future they believed was most likely to occur. Therefore, innovative organisations are able to leverage resources and they are able to define, engage and pursue emergent opportunities (Dobni, 2008).

Innovation occurs when organisations with high levels of learning capabilities encourage employees to question organisational and industry norms and challenge existing assumptions and orthodoxy (Lages, Silva and Styles, 2009). Van der Duin and De Graaf (2010) propose that an organisation can also ask itself what society, the market and technology will look like at some point in the future and what kinds of innovation processes need to be set in motion in order to match that future. There are several other ways in which organisations can innovate. This can be through research

and development, close collaboration between sales and marketing staff who are highly market and customer focused (Loewe & Chen, 2007). Technical staff inputs to product development also contribute to organisational innovation, as they specialise in the functional and design aspects of the products (Wang, Voss, Zhao & Wang, 2015).

In many organisations research and development was the only launching platform for innovation (Fowles & Clark, 2005). These organisations relied almost entirely on their in-house scientists for innovation and assessed their ability to innovate based on the number of patents generated per year (Lages, et al. 2009). However, increasingly organisations are establishing innovation networks made up of suppliers, distributors, customers, freelance scientists, government and university researchers and even competitors (Fowles & Clark, 2005).

Innovation in SMEs transcends the organisations boundaries, as such networking to enhance innovation is informed by the kind of opportunities that an SME seek to pursue (O'Cass & Weerawardena, 2009). Common traditional indicators of innovation such as expenditures on R&D are not very useful in measuring innovation in SMEs (Hall & Smith, 2012). Therefore, leaders need to probe the needs of new customers that they might serve and configure their value chain differently, thereafter adopt an economic model that will ensure sustainable benefit (Fowles & Clark, 2005).

Innovating companies are recognising the change imperative, therefore leaders see a crisis confronting the organisation and help others understand and face it (Chapman, Deschamps & Chapman, 2007). The organisation’s leadership needs to give staff an inspiring vision in order to contribute ideas and also to create a shared language around innovation that ensures everyone is reading from the same page (Stamm, 2009). The organisation’s senior management needs to develop a vision and a clear plan to achieve an innovation goal and then drive a programme that makes the vision a reality (Chapman et al., 2007).

The main objective for an organisation to innovate, is to develop a competitive edge over competitors (Palm, Lilja & Wiklund, 2015). Coakes and Smith (2007) outline that organisations innovate in order to gain new markets and this is achieved by introducing the right products at the right time in the right markets with the right supply chain and then continually updating, optimising and retiring them when necessary. The quality of the organisation's leadership will determine whether innovation succeeds or fails, because leaders are the embodiment of their organisation's way of believing, thinking and doing (Hall & Smith, 2012).

Leadership needs to ensure that appropriate processes and structures are in place to support the kinds of innovations the organisation seeks to pursue (Stamm, 2009). For organisations to realise innovation, they need to design and implement a systematic innovation process to maximise the chances of identifying profitable opportunities time and time again (Loewe & Chen, 2007).

Organisational leaders should focus on creating conditions for repeatable innovation, which make both disruptive and incremental innovations possible (Innovation policy platform, 2016). Innovation itself should not be thought of as an initiative for cost containment, talent management or a project, instead it must become an organisational persona, demonstrated daily through the behaviour of both leaders and employees (Yi, Wang & Kafouros, 2013). This requires organisational commitment, discipline, systems and ongoing everyday action. It also requires adopting new mind-sets, behaviours, and norms (Hall & Smith, 2012).

Furthermore, organisational leaders should realise that it is not only their responsibility to come up with breakthrough ideas, they need to create an enabling environment in which others can generate ideas while retain accountability (Coakes & Smith, 2007). Leaders need to provide the time, freedom and resources required to achieve ambitious innovation goals, while keeping execution moving at rapid speed (Navarro-Garcia, 2014). They need to model open-mindedness and value different opinions, perspectives and approaches, while promoting consistency and reinforcing the

organisation's strategic direction (Hall & Smith, 2012). Figure 2.1 below highlights the model that organisational leaders can use to drive innovation:

Figure 2.1. A model for driving innovation

Sourced from: Hall and Smith (2012) the CEO's guide to driving innovation

Innovation depends heavily on knowledge and the organisation's survival is highly dependent on knowledge-based strategies (Cardoso & Torkkeli, 2014). For that reason, an organisation must know how to efficiently deal with multiple-sourced information and be able to select useful information and transform it into valuable knowledge (Palm et al., 2015). An innovative leader needs to set up a process for filtering the really good innovative ideas from those that fizzle out and fund them accordingly (Deschamps, 2005).

Cardoso and Torkkeli (2014) point out that formal and informal networks provide organisations with access to information and knowledge. For SMEs, access to information reinforces their competitiveness by providing them with a window on technological change, sources of technical assistance, market requirements and strategic choices made by other organisations (Palm et al., 2015). Deschamps (2005) suggests that organisational leadership must first create a supportive environment that encourages responsible risk taking. A key driver of innovation is an organisational culture that allows information exchange, risk taking, experimentation and learning from failures (Chapman et al., 2007).

Chapman, et al. (2007) observe that some innovations seem to succeed and organisations copy initial innovation processes, adapting them to new uses and thus creating new innovations. Deschamps (2005) also point out that the culture that is supportive of innovation is important but it is not sufficient, unless the company develops confidence in the leader. Consequently, coaching the teams that will develop and implement innovative ideas is also necessary. For that reason leaders should formalise some innovative elements in order to increase efficiency and clarity (Palm, et al., 2015).

2.7 INNOVATION MANAGEMENT

The approach on how well an organisation innovates, is becoming the single most important issue in determining its ultimate success (Johnson, 2001). Stamm (2009) mentions that innovation must be properly framed and aligned to stakeholders' expectations. A good innovation environment must be present and the benefits of specific attributes of innovations must outweigh its shortcomings (Loewe and Chen, 2007). Pantano (2016) emphasises that innovation requires a deep understanding of risks and benefits involved, as well as identifying the best moment for innovating.

A common characteristic of innovative organisations is that they do not accept that the historical way of producing products or providing services, should be projected indefinitely into the future (Stewart & Fenn, 2006). They understand that an enabling culture, structure and continuous learning are a prerequisite for achieving cutting-edge solutions (Palm et al., 2015). Innovative organisations focus on integrative culture, which enables innovation to emerge continuously (Baregheh, Rowley, Sambrook & Davies, 2012).

Sustainable innovation is achieved by successfully managing a positive feedback loop between organisational leaders and employees (Sousa, 2006). Oke (2007) emphases the importance of having a clearly defined new product strategy guiding the innovation process. This strategy should provide a clear direction and focuses the effort of the entire organisation on a common innovation goal. Management needs to develop a strategy and communicate the role of innovation within the organisation and decide

how to use technology to drive performance improvements through the use of appropriate performance indicators (Steele & Murray, 2004).

Incentives for innovation are a critical part of creating an enabling environment. (Palm, Lilja & Wiklund, 2015). Adopting reward and incentive systems for deploying innovations is a really critical part of creating conditions for radical innovation (Pantano, 2016). Innovation by its nature carries significant risks such as failure, non-adoption by the producers or users as well as the inability to be sustainable in the long term. This underlines the need for incentives that encourage employees to take calculated risks (Chapman et al., 2007).

The ability to innovate might differ among organisations operating in the same sector in terms of number and nature of innovation. This strengthen the argument that innovators might succeed in the same sector with different timing, depending on their internal resources and strategic orientation (Pantano, 2016). Palm, et al. (2015) mention that innovation within the manufacturing industry has been approached by a strategy of distinct separation, where different competencies, systems, incentives, processes and cultures are internally aligned. However, in a service industry innovations are often related to a deep understanding of the customer needs through constant interaction.

It is important to recognise that creativity and the promotion of a culture for innovation, is of utmost importance in maintaining a proactive and entrepreneurial organisation (Steele & Murray, 2004). While there is an understanding that creativity and innovation can be chance events, a strategy needs to be installed that will ensure that innovation is sustained (Fowles & Clark, 2005).

2.8 SUMMARY

This chapter focused on innovative capabilities that SMEs should have in order to innovate and be competitive. A comprehensive literary review of innovation was presented focusing on innovation for the export market, benefits on innovation, investment required by organisations to ensure that they realise innovation and organisation and factors that businesses should consider in order to ensure that their innovation is sustainable. The following chapter will discuss present export opportunities that SMEs can pursue and review different methodologies that they can use to access export opportunities. The final section will focus on the export capabilities that SMEs should possess in order to access export markets.

CHAPTER 3

EXPORT OPPORTUNITIES AND EXPORT CAPABILITIES

3.1 INTRODUCTION

This chapter presents factors that contribute to export market selection. Different approaches available to SMEs to identify export opportunities are shared. Export opportunities that are available in the European Union, United States of America, BRICS counties and in other countries on the African continent which, South African SMEs can exploit in order to launch or expand their markets are presented. This chapter also present export capabilities that SMEs require in order to ensure that their export venture is successful and stainable.

3.2 EXPORT OPPORTUNITIES OVERVIEW

World trade is expanding rapidly and opening up a multitude of opportunities for SMEs to capitalise on (Mudalige, 2015). Leonidou (2004) observe that dramatic changes are occurring in global trade as a result of growing liberalisation of trading systems, which result in improved connectedness among regional economies with clients and marketing collaborators. More opportunities are realised through improvements in communication, information and transportation technologies and also through increased demand in advanced economies that presents latitude for SMEs to grow their operations (Mudalige, 2015, Leonidou, 2004).

In many economies SMEs have been identified as a key driver for global trade (Shafiullah & Navaratnam, 2016). The increased pace of globalisation, along with a decline in trade barriers and enhanced investment, has changed the way in which SMEs conduct business (Charoensukmongkol, 2014). Engaging in export operations is important in enhancing technological, quality and service standards in the organisation, thereby creating more revenues and funds for reinvestment and further development (Leonidou, 2004).

Organisations that seeks to stimulate growth through export improvement must make distinction between a number of export combinations in light of the fact that countless export opportunities exist, and only a predetermined number of these can be investigated as a result of scarce resources (Steenkamp, 2011). Charoensukmongkol (2014) proposes that every nation has particular attributes in as far as culture, economic development, legal and government regulation, and consumer lifestyle. Hence recommendation is that organisations who intends to extend their market, ought to adapt their products to align them to the cultural aspects of the targeted nations.

Jotautaitė and Jotautienė (2015) observe that organisations, which decide to export their products, face international competition. Therefore, before an organisation embarks on the export process, it is essential to conduct a detailed market analysis and determine appropriate market entry strategies which will inform the business either to export products through intermediaries or by themselves (Zghidi, Boubakri & Zaiem, 2013). The following section outlines some of the factors that contribute to SMEs' market selection.

3.3 FACTORS THAT CONTRIBUTE TO EXPORT MARKET SELECTION

There are various contributing factors to export market selection and some of these factors are sector/industry dependent and others are related to the organisation's growth prospects. Five factors that contribute to export market selection are presented below and they include: Geographic distance, targeted countries economic development, cultural distance, language distance and trade barriers.

3.3.1 Geographic Distance

According to Sheng and Mullen (2011) geographic distance plays an important role in global trade, since it can be associated with a conversant business environment and lower operating expense. This signifies improved knowledge about the international market and distinctive ease in acquiring information which is vital when organisations select target nations for expansion (Alvarez, 2007).

Three categories of cost are associated with doing business at a distance. These include physical shipping, time-related costs and costs of unfamiliarity (Sheng & Mullen, 2011). With less distance time related costs such as just in time inventory are lower (Ilgun & Muratovic, 2013). The effect of distance is a genuine factor particilarly for SMEs with less global skill and limited resource when they expand internationally. Geographic distance between two countries is negatively related to bilateral trade (Jong, De & Hulsink, 2012).

3.3.2 Economic Development

Expansion to foreign market is mainly determined by the nation's economic development, as such export market attractiveness is influenced by the nation's economic strength (Jotautaitė & Jotautienė, 2015). The size of an economy is a significant factor in most export opportunities identification approaches and is observed to be an exceptionally factor for reciprocal exchange estimation (Sheng & Mullen, 2011). Global exchange speculations proposes a firm relationship between the market size and the market potential of the host nation (Dinda, 2014). Thus, export opportunities are measured using countries growth rate and the market's size because this is an important criterion in the screening phase for international expansion (Freeman, Styles & Lawley, 2012).

3.3.3 Cultural Distance

Cultural distance is a key issue when pursuing exports due to the need to adapt to cultural characteristics (Reis & Forte, 2016). A large cultural distance between two countries increase transaction costs due to real and perceived misunderstandings and misinterpretations. Therefore cultural differences influence managerial decisions, such as market selection for exporting (Sheng & Mullen, 2011).

3.3.4 Language Differences

Sheng and Mullen (2011) emphasise language as an important enabler for bilateral trade and indicated that language as a medium of communication is often analysed as an export enabler. The examination of language distance outline that two nations with a common language have a higher inclination to trade which is approximately 55

percent more than they would if they have different languages. Alvarez (2007) suggest that a common language improves communication and trade, whereas language differences limit communication and reduce trade volume because of higher exchange costs.

3.3.5 Export Barriers

Export barriers play a key role in export markets selection, Mudalige (2015) points out that export markets have different sets of institutional settings where others are generally immature and provide inadequate information to initiate an export venture. Knowledge of potential export markets is key determinant in terms of market selection (Leonidou, 2004). Fuchs (2009) observes that foreign market orientation is not readily available but takes time to build and processes that are followed when dealing with international customers vary, depending on the targeted country.

In other markets there is an extensive state intervention for business operations and lack of effective mechanisms to enforce contracts (Acedo & Galan, 2011). Morgan, Katsikeas, and Vorhies (2012) mention that export transactions are dependent on contractual agreements, parties engaged in international markets use such contracts to obtain revenues and manage functional performance. Therefore, state intervention and inability to enforce contracts make market transactions in these markets less efficient and create significant uncertainty (April & Reddy, 2015). Fuchs (2009) suggests that higher levels of management commitment are required to compensate for such uncertainty.

Mudalige (2015) observes that two organisations at the same stage of export will not necessarily perceive the same obstacles, and as a result it is difficult to generalise barriers to SME exports under one umbrella. The above mentioned factors are not the only contributors to export market selection, other factors that SMEs should consider when determining export market are mentioned in Appendix A. The section below outlines some of the approaches that SMEs can use to identify export opportunities in different counties. Four proposed models are presented below to assist SMEs in identifying export opportunities.

3.4 EXPORT OPPORTUNITIES IDENTIFICATION

Organisations can identify viable export opportunities by utilising different instruments such as trade fairs and outgoing trade missions. Another method includes the provision of incentives to gain comprehensive market knowledge through consolidated information gathering and dissemination which is enhanced by the participation in international marketing training (Steenkamp, Rosso, Viviers & Cuyvers, 2009). Cuyvers (2004) acknowledges that pointed selectivity which is based on thorough examination of possible export opportunities is necessary in creating and implementing export strategies. The model proposed comprises of four consecutive filters which reveals realistic export opportunities for nations with adequate macroeconomic indicators.

Information obtained on export markets is screened where appealing market opportunities are identified and unattractive opportunities are eliminated. Viable business opportunities are identified by assessing general macro-economic indicators as well as political risk of each country. The remaining countries are evaluated in details to assess the market potential of different product groups (Cuyvers, 2004).

Further export opportunities are analysed in detail and this result in disregarding markets which are inaccessible due to export barriers which demonstrate a probability of prevailing bilateral trade agreements which are difficult to circumvent. From that point, a list of plausible export opportunities is attained, presenting product and country combinations with adequate potential to be pursued profitably (Cuyvers, 2004). Steenkamp, et al. (2009) suggests that realistic export opportunities are identified by assessing the strengths and weaknesses of the exporting country in the particular foreign market.

This approach is grounded on the market share of the exporting country in the target markets. If the market share is still weak, a different permeation strategy should be explored rather than a product/country combination (Cuyvers, 2004). Another approach focuses on assessing export opportunities as per the targets market's attributes, for example smaller markets which are on the rise could be pursued instead

of large markets (Steenkamp, et al. 2009). The method proposed by, Sheng and Mullen (2011) involves three noteworthy quantitative methodologies which are market grouping, estimation and ranking.

Global nation grouping has been perceived as an imperative tool for analysing a number of nations with differing market potential. Organisations with presence in international markets are more open to trade with countries in a similar group in which they have been prosperous. This approach is spontaneous and attractive but it has constraints, on the grounds that as opposed to evaluating market potential, it relies on general country indicators not product related indicators (Acedo and Galan. 2011).

Market estimation intends to segregate foreign markets according to market potential. The growth of the targeted product is used to track export opportunities in each importing country. This assessment is adaptable and product related, however, it confines the amount of information as it uncovers only relative opportunities about the market potential yet the underlying elements are unknown. Managers begin with presumptions or biases that exclude certain nations or regions as conceivable target markets. Accordingly so as to minimise this fault, preparatory screening ought to be applied to as many nations and markets as would be prudent, moreover screening of secondary data should be utilised to compare a substantial number of nations before choosing which ones to scrutinise in detail (Sheng and Mullen, 2011).

Steenkamp (2011) recommends that most qualitative methodologies regularly begin with distinguishing a shortlist of nations for further consideration and afterward objectives and limitations for exporting a particular product to each country are established. Ordinary sources of qualitative information incorporate government organisations, chambers of commerce banks, merchants, customers, international experts and visiting foreign markets. Since most qualitative information depends on perceptions, international market selection based on this approach, tends to be biased and to a great extent inaccurate.

Steenkamp (2011) proposes that one of the methods to be used in international market selection is the decision support model. This method analyses the export markets based on three stages: in the first stage, preliminary screening is conducted to choose more appealing nations to explore in detail, based on countries' economic, political, demographic and social environment. In the second stage an in-depth screening is conducted to assess the market access, competitors, growth potential and size including other market factors. The final stage includes the assessment of organisation ability to sell products, profitability and possible product modification. The following section focuses on export opportunities that are available for South African SMEs in the European Union (EU). A brief background of European Union is shared, and the available opportunities are presented.

3.4.1 Export Opportunities in the European Union

Since the beginning of democratically elected government in South Africa and finalisation of the trade, development and cooperation agreement in 1999, the relationship between South Africa and the European Union has developed gradually to the level of strategic partnership in 2007 (Van de Geer, 2014). Subsequent to a strategic partnership, the EU and South Africa adopted an action plan focusing on enhancing cooperation on regional as well as international issues, which includes stronger cooperation on economic and social aspects (Jordaan & Kanda, 2011).

South Africa is EU's thirteenth biggest trading partner and it is the main nation in Sub-Saharan Africa whose relations with the EU are at the level of a strategic partnership.

South Africa's exports to the EU make up a quarter of its total global exports (Van de Geer, 2014). Obinyeluaku (2013) points out that more than half of South Africa's exports to the EU, is processed and semi-processed goods.

The European Union has developed and maintains an EU export helpdesk (electronic export tool) in its effort to support trade. This helpdesk gives information on EU tariffs, quotas, preferential arrangements, export requirements and statistics influencing business in developing countries. The EU export helpdesk also make available a wide-range of information for developing countries on the most proficient method to get to

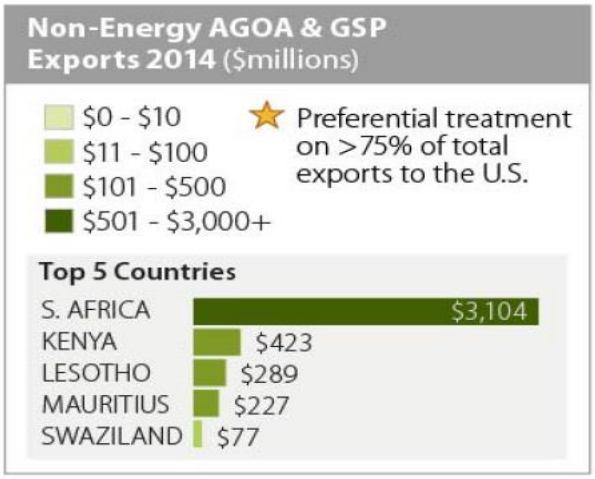
the EU market and possible gains from preferential trade agreements (Van de Geer, 2014). The following section identifies export opportunities that are available for South African SMEs in the United States of America (USA). A brief background of the USA is shared and the available opportunities are presented.

3.4.2 Export Opportunities in the United States of America (USA)

The African Growth and Opportunity Act (AGOA) is a mutual beneficial trade preference programme that gives obligation free treatment to USA imports of more than 7 000 items from qualified sub-Saharan African (SSA) nations. These products range from agriculture, processed food, wine, horticulture, manufactured goods, motor vehicles, clothing and textiles (Williams, 2015).The value of exports destined for USA amounted to more than R55 billion in 2015, representing 77% of South Africa's total exports to the world's largest economy. No country imports more products with a relatively high value-added content from South Africa than the USA (Botha, 2016).

The USA economy presents a great opportunity for South African businesses due to the fact that it takes the country five days to produce South Africa's total annual GDP. Americans also have a high spending power with 50% of households earning between R670,000 and R2 million, based on a rand/US dollar exchange rate of 16:1 (Botha, 2016). However, Williams (2015) observes that USA imports from AGOA beneficiary countries represent a small share (1%) of total USA imports. South Africa accounts for the bulk of imports under AGOA and also exports a much more diverse range of manufactured goods than other AGOA countries (Botha, 2016). Figure 3.1 below highlights the value of exports of sub Saharan Africa countries, who are exporting to the USA. South Africa stands out as the leading country in comparison with other African countries in the same region.

Figure 3.1: Top 5 AGOA exporters



Source: Williams, B. (2015) African Growth and Opportunity Act (AGOA)

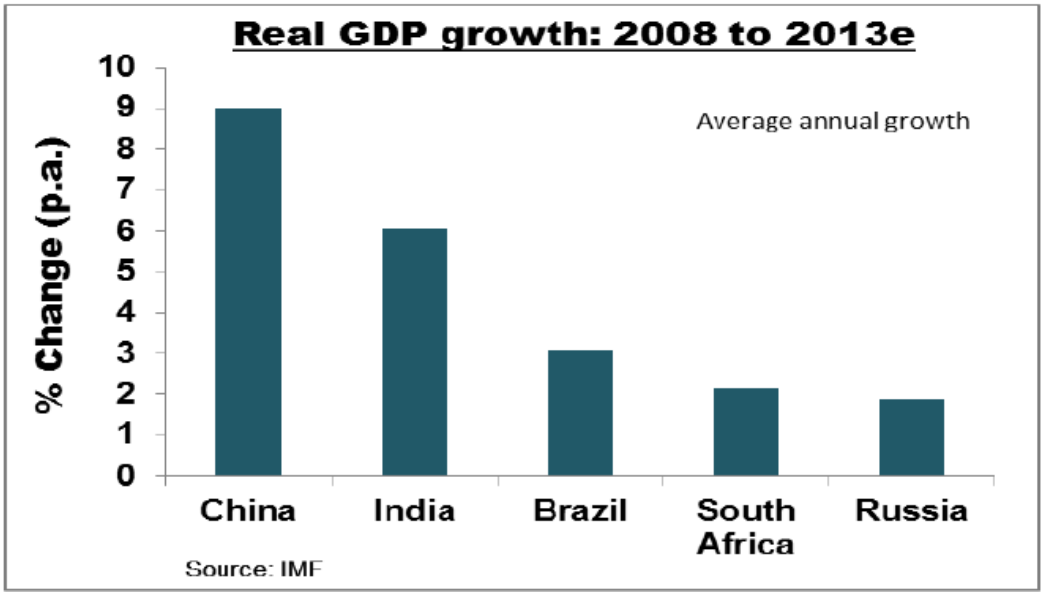
Williams (2015) points out that products from AGOA countries must adhere to stipulated rules of origin in order to be considered for duty-free treatment. Products qualify for duty-free entry only if they have been imported directly from the beneficiary country to USA. Consideration is made if at least 35% of the assessed value of the product is grown or manufactured in the beneficial country. This measure is defined by the total cost or value of materials used to produce that particular product. The following section focuses on export opportunities that are available for South African SMEs in the BRICS countries. A brief background of BRICS is shared and the available opportunities are presented.

3.4.3 Export Opportunities in the BRICS countries

BRICS was formed with the aim of encouraging commercial, political and cultural cooperation amongst its member countries, namely Brazil, Russia, India, China and South Africa (Zghidi, Boubakri & Zaiem, 2013).The BRICS grouping is estimated to have accounted for about 28% of the world's gross domestic product at purchasing power parity in 2013. This grouping is home to almost 3 billion people, which is about 42% of the global population, affording them a substantial market for goods and services. Through greater cooperation, the BRICS alliance seeks to influence and reform global governance and economic relations (Pearson, Viviers, Cuyvers & Naude, 2010).

China has become South Africa's key export destination at the individual country level and is the principal market for South Africa within BRICS (April & Reddy, 2015). In 2012, China was the destination for almost 84% of South Africa's exports to other BRICS economies, followed by India with 15% share, while export to Brazil and Russia were very small (IDC, 2014). The figure below highlights export opportunities in BRICS countries based on real GDP growth from 2008 to 2013. Figure 3.2, highlights that China leads the pack followed by India, where Brazil and Russia has seen much less growth.

Figure 3.2: BRICS Countries Real GDP growth from 2008 to 2013

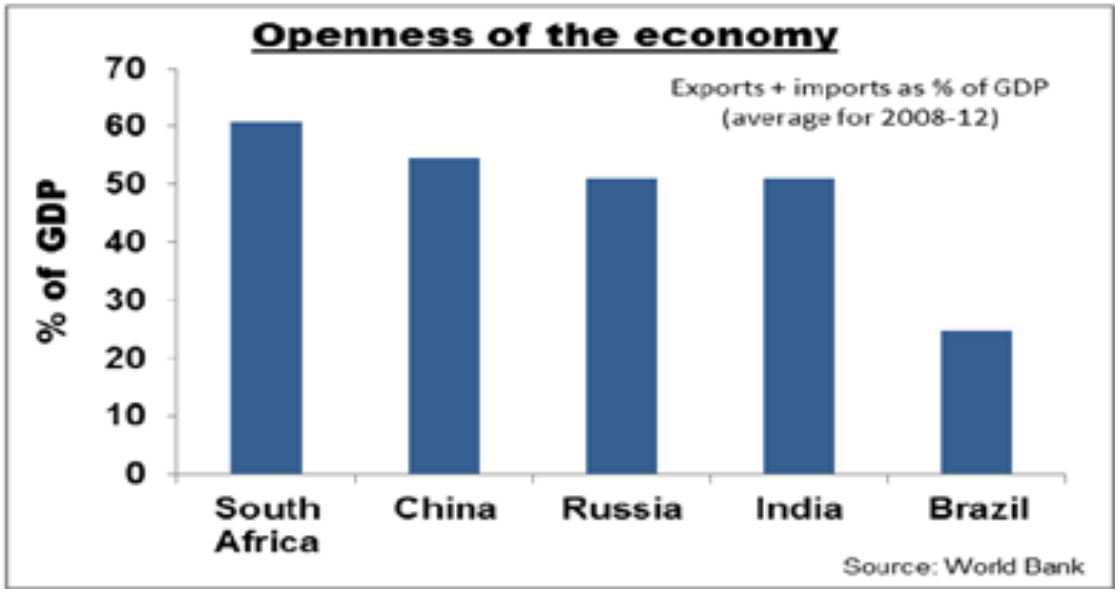


Source: IDC 2014 (Export opportunities for South Africa in other BRICS economies)

The IDC (2014) suggest that South Africa should progressively reap the benefits of its economic and political relationships with fellow BRICS countries if the latter increasingly open up their economies. Moreover, South Africa should addresses structural problems that are constraining competitiveness, including improvements in productivity, infrastructure and logistics, as well as skills development (Pearson, et al., 2010).

Figure 3.3 below ranks BRICS economies in relation to openness and the ease of doing business, China leads the pack, where Russia and India are almost similar and Brazil lags behind. The analysis of GDP growth and openness of economy highlights that China, followed by India, has better characteristics, which are more favourable to South African SMEs.

Figure 3.3: Economic openness in BRICS Countries



Source: IDC 2014 (Export opportunities for South Africa in other BRICS economies)

Altogether, South Africa's exports to BRICS have been largely dominated by minerals and beneficiated products, with iron ore exports representing almost one-third of the export basket in 2012. Opportunities for further development of South Africa's exports to other BRICS countries are expanding, and in the case of China and India it has reached substantial levels. Trade with Brazil is below the estimated potential, which is partly due to the relatively similar composition of the export baskets, where Russia has insufficient market development endeavours, which make it difficult to access their market (Lamprecht, 2011).

The presented information indicates that there is significant potential for the further development of South Africa's export trade with other BRICS countries. However, this

potential has been limited by a number of factors such as their historical links with particular trading partners. The realisation of these opportunities remains highly dependent on efforts by BRICS governments to effectively address certain market access challenges that are unnecessarily constraining trade flows between the member states (IDC, 2014).

The IDC (2014) presents some of the noted challenges, which include:

- Excessively bureaucratic procedures in most BRICS countries,
- Certain protectionist regulations and standards (e.g. restrictive public sector procurement criteria),
- Import protection,
- Inadequate promotion of intra-BRICS trade and investment flows, and
- Alleged difficulties in accessing business visas, among other factors.

The following section presents export opportunities that are available for South African SMEs in the other African countries.

3.4.4 Export Opportunities in selected African countries

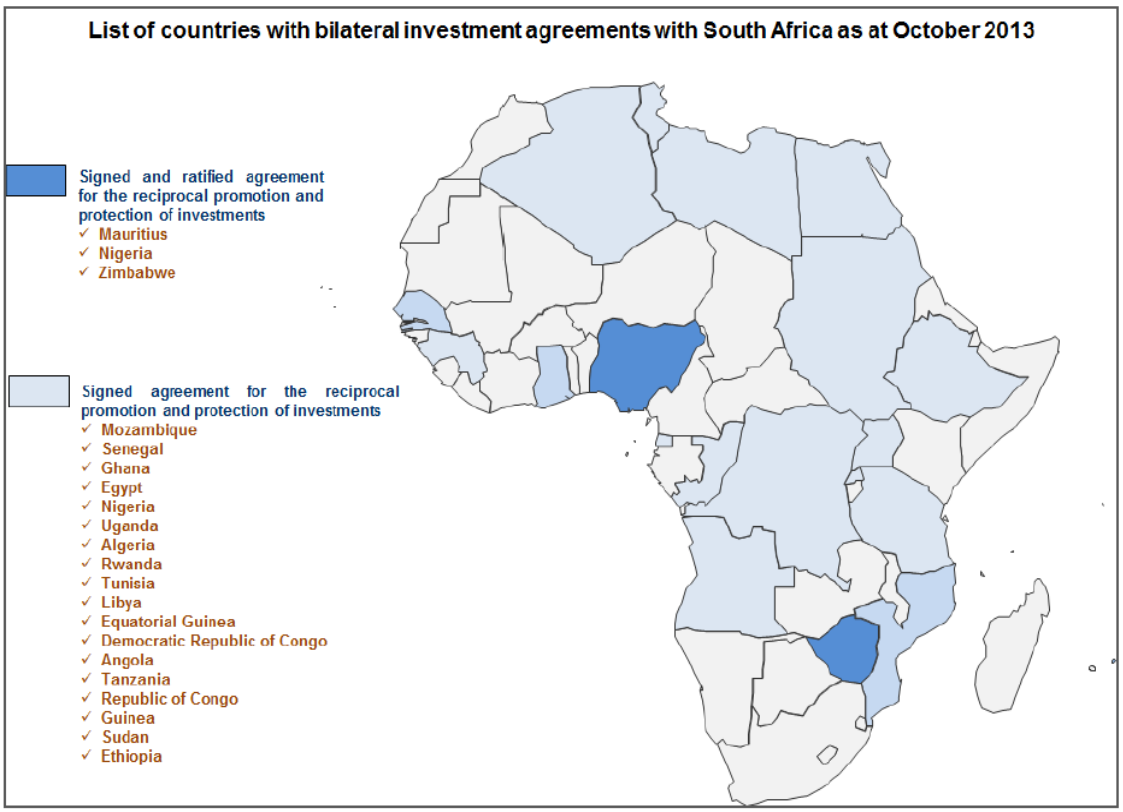
The African continent has observed positive essential change arising from advances in macroeconomic management, governance and institutional reforms. The decline in the incidences of armed conflicts have helped to sustain the economic growth momentum which has averaged 5% and above. Africa has been home to some of the quickest developing economies in the world in recent years (IDC, 2014).

Africa's exports to the rest of the world have risen more than four times from 2000 to 2012, but its share of export in the world market has remained stagnant at 3%. This is an indication that the competitiveness of Africa's exports has not improved over the specified period. Most of Africa's exports are in the form of raw materials, which made up about 63% of total exports in 2012. The continent's heavy reliance on few commodities for its own economic performance and developments, makes it highly vulnerable to external shocks (IDC, 2014).

Africa's trade with other continents has improved rapidly over the years, intra-African trade represented only 12.1% of overall trade and this figure compares poorly with other global regions (IDC, 2014). South Africa's trade with the rest of the continent has gradually increased over the years but the country is yet to make substantial advances in some of its bigger and quickly developing economies. This is in spite of having a considerably more broaden economic base and largely more elevated technological advancement (Steenkamp, 2011).

South Africa needs to leverage on the existing bilateral and regional trade arrangements in order to expand and diversify its export basket destined for the rest of the continent (IDC, 2014). South Africa has entered into bilateral agreements with a number of African countries, among these are Southern African Development Community (SADC) and the Southern African Customs Union (SACU). Other agreements are illustrated in Figure 3.4 below.

Figure 3.4: Countries with bilateral agreements with South Africa



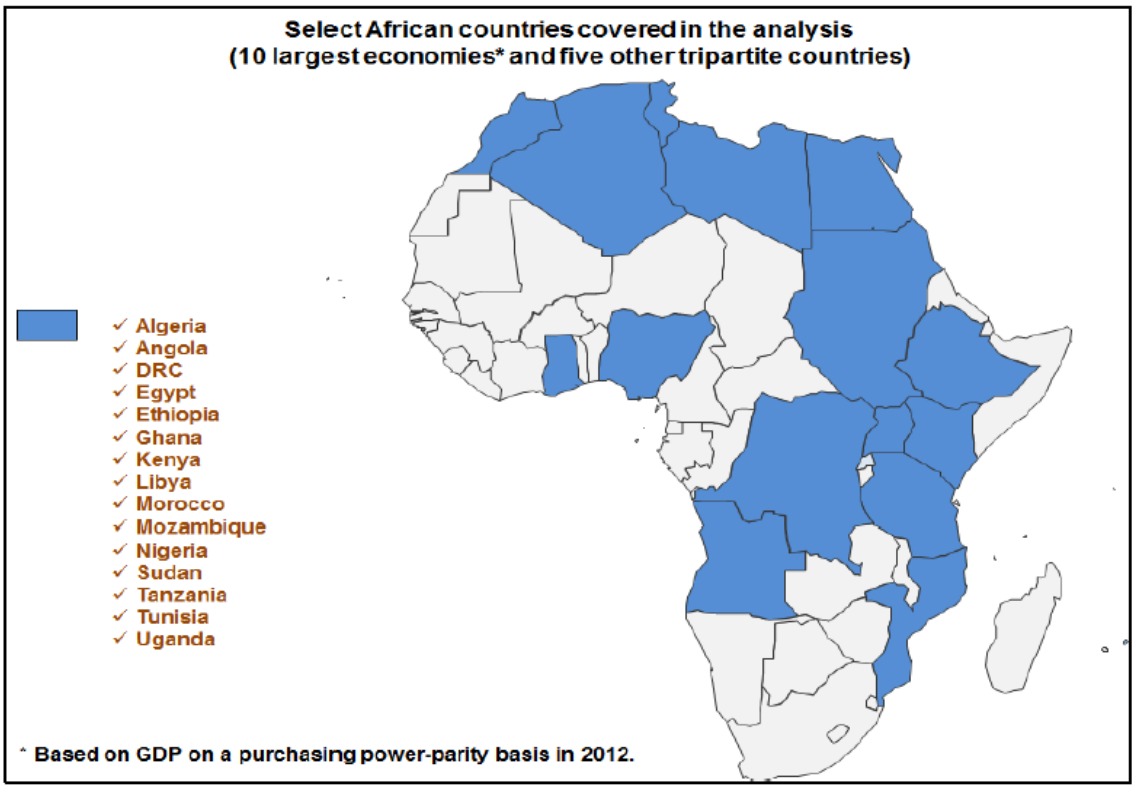
Source: IDC 2014 (Export opportunities for SA in select African countries)

South Africa dominates Africa's exports, with a 24.5% share of intra-regional exports and 15.4% share of intra-regional imports. The country has seen its trade with other SADC member states and other African countries such as Nigeria, Ghana and Kenya flourish. An increasing number of countries on the continent are turning to South Africa as a reliable source of several products for their imports (IDC, 2014).

The relative importance of South Africa's export trade with the rest of Africa is rising, accomplishing a 13.5% average yearly growth rate over five years until 2012 for countries in the proposed Tripartite FTA, and 21.6% for the rest of Africa. The African continent has thus become an increasingly important trading partner, in spite of the fact that countries which are part of the proposed Tripartite FTA are responsible for approximately 83% of South Africa's exports, other African countries are also growing and undoubtedly have the potential to grow further (IDC, 2014).

The share of South Africa's exports destined for Africa increased by 2.8% in 2012, from 15% in 2011. Opportunities for further development of South Africa's export trade with major African markets, and the selection of African countries, require a more focused analysis (IDC, 2014). Figure 3.5 below highlights the 10 largest African economies and five other countries within the Tripartite FTA, which have been identified for export opportunity analysis. The rationale is based on their GDP and their purchasing power parity basis, as listed in 2012.

Figure 3.5: Countries covered in the export opportunities analysis



Source: IDC 2014 (Export opportunities for SA in select African countries)

Table 3.1 outlines African economies with their GDP, where South African businesses, especially SME's can identify export opportunities. Some of the countries listed in the table are among the top ten of the fasted growing economies in the world (IDC, 2014).

Table 3.1: Fifteen African economies selected for the analysis and their respective GDP

Region	Country	GDP in 2012 (PPP basis, USD billion)
Countries amongst the 10 largest African economies that belong to the Tripartite FTA	Egypt	540
	Angola	128.3
	Ethiopia	103.3
	Libya	77.4
Countries amongst the 10 largest African economies that do not belong to the Tripartite FTA	Nigeria	448.1
	Algeria	272.9
	Morocco	171.2
	Tunisia	105.3
	Sudan	85.2
	Ghana	82.4
Other countries within the Tripartite FTA not included above but that feature amongst the 20 largest African economies	Kenya	75.9
	Tanzania	73.4
	Uganda	50.5
	DRC	27.6
	Mozambique	26.3

Source: IDC 2014 (Export opportunities for SA in select African countries)

Export opportunities in selected African countries, where South Africa has a competitive advantage, are presented in Appendix A. SMEs can exploit these opportunities and launch their export programmes as a getaway to the rest of the world. The section below focus on identifying export capabilities that SMEs should possess in order to access the presented export opportunities.

3.5 EXPORT CAPABILITIES

Small and medium-sized enterprises (SMEs) make up over 90% of businesses worldwide and between 50 to 60% of global employment, but they contribute about 25% of the export income (Mudalige, 2015). Regardless of an increasingly favourable macro environment for international trade and frequently highlighted benefits of exporting and increased government support, the level of export remains unusually low for SMEs (Ilgun & Muratovic, 2013). April and Reddy (2015) observe that developing economies are increasingly looking at ways to increase their export-led growth.

Exporting allows organisations to expand into new markets, which serve as catalysts for significant growth opportunities. This includes safeguarding the organisation's market position and ensures long term survival (Sousa & Bradley, 2009). Reis and Forte (2016) suggest that SMEs, who actively seek export markets, are highly productive and they are capable of facing international competition. Charoensukmongkol (2016) indicates that many SMEs undertake export activity only if production capacity is available.

Sousa and Bradley (2009) observe that in most cases SMEs struggle due to limited production capacity which restrict exporting benefits realised due to economies of scale, these limitations prevent them from dedicating some of their production to export markets due to standard costs imbedded in exporting activities. A high degree of export commitment is necessary for SMEs to satisfy export capacity, including the agility to respond to fluctuations in international demand (April & Reddy, 2015). This commitment requires management's time and finance to support the export venture (Raymond, St-Pierre, Uwizeyemungu & Le Dinh (2014). However, SMEs owners often do not have the specialist expertise to manage their international operations (Dressler, 2015).

Lages, Silva and Styles (2009) specify that an extensive variety of capabilities is required to create value, maintain competitive advantage and attain greater profitability. This can be accomplished by continuously looking for knowledge about global markets, potential competitors and customers (April & Reddy, 2015). Export capabilities for example those in operations, marketing and logistics directly influence the SME's capacity to export (Fuchs, 2009). Guan and Ma (2003) suggest that organisations require the following resources and capabilities in order to fully exploit export opportunities: skilled workforce, an ability to design, produce and deliver quality and reliable product on time.

Fuchs (2009) emphasises the importance of the following export capabilities: the ability to organise foreign market business in a flexible way, the capability to organise direct market activities, the capability to launch new products and services, the ability to

develop in foreign markets, and the capacity to identify the need or opportunity for change, thereafter formulate a response to such a need or opportunity and implement a course of action to achieve superior customer value in export markets. Raymond, et al. (2014) suggest that in order for SMEs to distinguish themselves in highly competitive markets, it is vital for them to possess innovation capabilities.

Barnes, Chakrabarti and Palihawadana (2006) suggest that SMEs' specific distinct advantage, derived from the quality of its products, its technological orientation and resources, may contribute towards exporting success. Internal change agents such as owners or managers, who have an interest in export development, represent a key determinant as to whether an organisation will take the initiative to export. Murray, Gao and Kotabe (2011) outline the organisation's capabilities, includes gathered information and abilities that empower the organisation to utilise and improve the resources value. Capabilities empower an organisation to undertake value-creating tasks successfully and they are imbedded in organisational routines and processes that are hard to imitate.

The export capability-building process is driven by a business owner or a manager with a global mind-set, prior international experience and a learning orientation (April & Reddy, 2015). SMEs in developing countries can climb the learning curve by introducing processes to build export capabilities (Sousa & Bradley, 2009). Charoensukmongkol (2016) suggests that SMEs with an abundance of resources will not enjoy their benefits if their owners do not act on export opportunities. The section below outlines some of the key capabilities that an exporting SME should possess.

3.5.1 Export capabilities required to ensure export success

The export capabilities can assist SMEs in maintaining a presence in the foreign market. This section focuses on the following capabilities; relation capabilities, marketing capabilities, adaptive capabilities, management skills, learning ability and product quality.

3.5.1.1 Relationship Capabilities

Lages et al. (2009) suggest that relationship capabilities reveal a progression of collaborations happening between parties engaged in export venture and improve information sharing between the organisation and customers. Charoensukmongkol (2016) highlights the importance of engaging with larger and more reputable organisations, as well as with foreign business collaborators /customers and indicates that networking provides SMEs with the opportunity to gain valuable knowledge about the foreign market, in this way helping them to reduce perceived risks and uncertainties related to international operations.

An organisation's ability to form and maintain relationships contributes positively to the success of export venture. One of the benefits of a long-term commitment in a channel relationship is the enhancement of business performance (Lages et al., 2009). Freeman (2009) acknowledges that channel members can bring new intangible assets to the organisation by providing local know-how, market knowledge, and exchange of information, thereby increasing an organisation's international competitiveness.

Lages et al. (2009) clarify that relationship capabilities are exceptional and not easy for competitors to duplicate and are essential for sustainable competitive advantage. Consequently, the main challenge for organisations participating in international business is to avert the dissolution of relationships by maintaining a strategic distance with partners in order to avoid potential losses. Freeman (2009) emphasises that collaboration enables organisations to develop solutions to general problems, gain knowledge, obtain technologies/resources and extend into markets that otherwise would have been beyond the reach of the exporting organisation.

3.5.1.2 Marketing Capabilities

Morgan et al. (2012) refer to marketing capabilities as an approach by which organisations select envisioned value propositions for targeted customers and direct resources to deliver these offerings to achieve the desired goals. Organisations must have ability to publicise and sell the products while taking into account customer's

current and future needs, access approaches also paying attention to competitors' knowledge, as it influence marketing capabilities (Guan & Ma, 2003).

Export marketing capabilities comprise of practises used to collect, synthesise and interpret export market information, as well as the distribution of important foreign market information to decision makers which aids in the development of export marketing strategies. This incorporates export product and pricing management, logistics management and distribution. Marketing communications, selling and post-sales support services which enable the organisation to transform its available resources into planned value offerings for target customers in the export market are also necessary (Morgan et al. 2012).

Raymond et al. (2014) propose that the improvement of marketing capabilities and innovation is reliant upon the organisation's human capital. Competent employees understand customers' needs and can initiate relationships with them to guarantee their loyalty. Murray et al. (2011) suggest that marketing capability empowers the organisations to utilise marketing communications to manage value perceptions for export customers. In this manner organisations with marketing communication capability are able to induce consumers to have a positive impression of their products and accordingly building a differentiated brand image (Morgan et al. 2012).

3.5.1.3 Adaptive Capabilities

Charoensukmongkol (2016) believes that adaptive capability outlines the organisation's ability to coordinate, reassess and allocate resources to meet product modifications required by foreign customers and suppliers. Organisations can attain greater customer satisfaction when their products are adapted to match local market needs as such they will be able to charge a higher price, accordingly bring about greater profitability.

The demands to meet particular foreign market requirements often necessitates creative and innovative thinking. Knowledge acquired through product modification

can enable organisations to produce new products for their domestic and international markets (Murray et al. 2011). Organisations that possess adaptive capability can respond more swiftly and effectively to fluctuations in global environment, therefore organisations which intends to grow their market ought to adjust their products to match the cultural aspects of the target countries (Charoensukmongkol, 2016).

3.5.1.4 Management Skills

Fuchs (2009) finds that management is increasingly identified as a key success factor in order to explain organisations' export capabilities. SMEs use management skills and experience to contribute to export capability (April & Reddy, 2015). Managerial skills include the capability to develop, sustain, negotiate and cultivate suitable relationships with customers in export markets, along with an ability to acquire important market information. Guan and Ma (2003) indicate that management characteristics, which are essential, include the ability to assess export expectations, profitability and costs.

The decision maker's level of education and amount of work experience, attitudes towards risk taking and the ability to identify obstacles in the process of internationalisation, will determine success (Freeman, Styles & Lawley, 2012). This also includes the assessment of export incentives, ability to source orders and respond to competitive pressures, which comprise negative domestic trends. SMEs commonly lack appropriate managerial resources, for example the absence of qualified employees can hinder an SME's export efforts. As a result SMEs frequently experience difficulty in enlisting specialised personnel and this can turn into a huge limitation to exporting (April & Reddy, 2015).Fuchs (2009) suggests that existing managerial capabilities in smaller organisations can be more precisely directed to emerging export market opportunities.

Management's international experience has a positive effect on the export capabilities of the organisation (Fuchs, 2009). Experienced managers are more capable of providing the support and collaboration needed to manage the export relationship successfully. The intensity of interaction between exporters tends to foster successful relationships and joint decision making when the experience is greater (Sousa &

Bradley, 2009). Barnes, Chakrabarti and Palihawadana (2006) observe that a distinct entrepreneurial capability appeared to be associated with the success of many born global organisations; this is due to the manager's ability to identify organisation's competitive advantage and the culture of the organisation.

3.5.1.5 Learning Ability

A learning orientation among SMEs makes them ready to adopt new technologies and they are alert to export opportunities (April & Reddy, 2015). Lages et al. (2009) describe organisational learning capabilities as the development of knowledge or insights that facilitate behavioural changes to enhance innovation. The process of international learning can be derived from other organisations within the SME network, including customers, suppliers and competitors (Charoensukmongkol, 2016).

Julian & Ali (2009) acknowledge that organisational learning enables the business to engage in continuous business improvement initiatives. Charoensukmongkol (2016) suggests that, if SMEs learn about customers and competitors, they have a better chance of success in exporting markets. The sources of learning include accessing information thorough technology, market analysis and social engagement. Technology learning offers information that supports the launch of innovations and it also increases an organisation's performance through research and development capabilities, design of differentiated products and launching the developed products to the market (April & Reddy, 2015).

Technological awareness provides information on how to produce a product economically given input prices and how to deliver a given product cheaper than competing organisations (April & Reddy, 2015). Furthermore, market learning defines the organisation's readiness to detect market and customer changes and anticipate responses. It also encompasses market-focused learning to develop a marketing capability for accessing niche markets and for building market positioning (Raymond et al., 2014).

SMEs tend to concentrate on choices focused on everyday operations and disregard long term strategic objectives and activities, such as analysing trends in global markets and developing new abilities to enter new markets. As a result they find it challenging to track the international marketplace and measure their strengths and weaknesses (Barnes et al., 2006).

3.5.1.6 Product Quality

Product quality is the most critical factor that helped organisations to become successful in international markets (Barnes et al., 2006). Exporting companies attest that innovative features of their products and competitive prices are important contributors to international success (Yi, Wang & Kafouros, 2013). The speed with which SMEs are capable of introducing new products is a significant determinant of an organisation's export performance and positional advantage in the export market (Freeman, 2009). Navarro-Garcia (2014) points out that business owner's commitment to quality, employee quality training, employee involvement and empowerment as well as customer focus are key contributors to product quality.

The organisation's management determine quality goals, apportions resources and assesses execution using set quality criteria. Through employee involvement, the organisation encourages employees to provide suggestions to improve product quality and puts those solutions into practice. Frequent quality training offers prospects for employees to expand their quality knowledge and skills, which improves individual growth and teamwork. Decentralised decision making empowers employees to reach their personal goals, which assists with handling uncertainty and promotes the efficacy of the decision making process (Lages et al., 2009).

New product development encourages organisations to extend their technological, marketing and managerial capabilities in order to adapt to customer changes and create value in export markets. For SMEs to establish a competitive advantage in the marketplace, creating new products or reconfiguring existing products should be a fundamental organisation strategy (Freeman, 2009).

3.6 SUMMARY

This chapter focused on export opportunities and export capabilities, where the literature highlights tools, methodologies and key consideration for SMEs when they are identifying export opportunities. Key export opportunities were highlighted in EU, USA, BRICS and other African countries. Equally important export capabilities that SMEs should possess were shared to enable SMEs to respond to the presented export opportunities. The following chapter focuses on innovative capabilities that SMEs require in order to be successful in international markets.

CHAPTER 4

RESEARCH METHODOLOGY

4.1 INTRODUCTION

Research is a systematic process of collecting and analysing information in order to increase the understanding of the phenomenon in which the researcher may be interested (Leedy & Ormrod, 2005). In the previous two chapters, literature related to export opportunities, export capabilities and export innovation, was presented. Collis and Hussey (2014) mention that a literature review serves to guide and inform the research, therefore this chapter will focus on the research methodology that was used in implementing this study.

In this chapter the research question, primary research objective of this study are reemphasised as the basis for the research, and the study hypotheses are also presented. The remaining sections of the chapter will focus on the approach to be followed to accomplish the research. Topics to be discussed include the research paradigm, sampling, data collection and the instruments that were used. The layout of how the pilot study was conducted, the testing for reliability and validity and lastly ethical considerations, will also be covered.

4.2 RESEARCH OBJECTIVES

The literature reviewed has shown that there is limited research on innovative capabilities for small businesses; the major focus is directed to big business. Additionally, there is limited research on the analysis of export innovation activities of SMEs. In order to achieve the above, the primary objective addressed by this study is stated as follows:

To analyse SMEs' innovation capabilities through their entrepreneurial competitiveness, revealing the realities whether these innovation capabilities could be used to improve their level of exporting.

The information obtained in this study will provide guidance to small business owners and supporting agencies with strategies to be adopted to encourage them to pursue the export market by focusing on innovation in order to gain a competitive advantage.

In addressing the primary objective the following research questions were considered:

- How innovative are South African SMEs?
- Do South African SMEs invest in innovation?
- Do South African SMEs see the benefit of innovation?
- Do innovative South African SMEs pursue export opportunities?
- What can be done to encourage non exporting SMEs to pursue export opportunities?

The following hypotheses were also drawn in order to respond to the primary objective:

H1: Influence of export opportunities on innovation capabilities.

H2: Influence of export capabilities on innovation capabilities.

H3: Influence of innovation benefits on innovation capabilities

H4: Influence of innovation Investments on innovation capabilities

4.3 RESEARCH PARADIGM

In this section two research approaches that are used to conduct studies; namely the quantitative and the qualitative paradigms are presented. The selected approach to be used in this study is outlined and the reasons for selecting this approach are mentioned. The quantitative approach originates from a positivist worldview and includes the gathering and investigation of factual information. It expect that there are social certainties with a solitary target reality isolating sentiments and convictions of people (Creswell, 2014).

Collis and Hussey (2014) outline that in the quantitative approach the researcher is independent from the phenomena under study and the results are unbiased and value free. They further indicate that the researcher studies cause and effect and utilises

static design where categories are identified in advance. This approach allows the researcher to generalise findings which lead to prediction, explanation and understanding. Results obtained through quantitative research are accurate and reliable through validity and reliability.

A qualitative study underscores the utilisation of words, as opposed to measurements to depict social phenomenon and attempts to uncover the more profound importance and significance of human conduct and experience. This approach generally depends on interviews, perceptions, document review and varying media materials as sources of information (Creswell, 2014). In the qualitative approach the investigator recognise that the research is subjective, in this way the discoveries are one-sided and value-laden. The investigator concentrates the theme contained in that particular circumstance and uses a developing outline where categories are distinguished in the process. In this approach patterns or theories are established for comprehension and discoveries are precise and dependable through verification (Collis and Hussey, 2014).

In this study the objective is to identify innovative capabilities of South African SME's, and to understand how they are using these capabilities to access export opportunities. The assumption is that if identified capabilities are common, other SMEs who are not yet exporting can learn and develop practises to pursue the available export opportunities. Based on this analogy it follows that the research needs to be quantitative in nature, as a large number of responses are required to aggregate and find common innovative traits from surveyed SMEs.

Most studies that have been conducted to understand SMEs' level of innovation have also followed the quantitative approach (Wu & Sivalogathasan, 2013; Stamm, 2009; Oke, 2007; Jong et al., 2012 and Hessels, 2007). This approach affords the researcher an ability to generalise the result of this study to the entire population based on the responses received from the sample.

4.4 SAMPLING DESIGN

According to Mugo (2009) a sample is a small segment of a statistical population whose properties are considered to ascertain information about the population. In a case where the researcher is dealing with human beings, a sample can be viewed as a portion of respondents carefully chosen from a bigger population with the end goal of conducting a study. Higgins (2009) indicate that the sample should be precisely selected, so that through it the investigator can see all the attributes of the aggregate population in a similar relationship that they would be seen if the total population was under investigation.

The population for this study included SMEs who are registered on the Seda and Department of Trade and Industry (the dti) database, who are exporting and those who have expressed an interest to export. This approach was selected to ensure that the sample selected from these databases is manageable. SMEs who have expressed their interest to export were afforded an opportunity to indicate their innovative capabilities and were assessed on how they were using innovation to access international markets.

The sample was drawn from these databases and a stratified random sampling technique was used to select the sample from the population. This was done to ensure that targeted SMEs reflected an even spread across all provinces within South Africa. The sample was representative of all key sectors where SMEs are active in pursuing export opportunities. The study had a sample of 1000 targeted respondents, but during the data preparation phase, the researcher noted that some of the information between these databases was for similar clients. This reduced the sample size to 680 potential respondents.

The following was also noted from the remaining sample: 82 clients on the list did not have email addresses which were used to deploy the survey. Eventually 598 clients who had email addresses were captured on the Digium survey tool. Then, 64 emails addresses failed the system validation, so overall 534 emails were sent to clients and 289 respondents completed questionnaires, which represents a 54% response rate.

4.5 DATA COLLECTION

With the ultimate objective of coordinating this research, a survey was selected as an ideal method for soliciting information from the respondents. The survey affords the researcher an ability to ask predetermined questions in a logical sequence to a sample of individuals in order to ensure equitable population representation (Higgins, 2009). Hair, Bush and Ortinall (2006) mention that there are four kinds of survey methods which are presented in Table 4.1 below:

Table 4.1: Survey methods

Survey Method	Description of the method
Person-administered survey	This method requires the presence of a trained human interviewer who asks questions and records the respondent's answers.
Telephone-administered survey	In this approach the interview and the respondent communicate via telephone technology, the question-and-answer exchanges happens over the telephone line.
Self-administered survey	In this technique the respondent reads the survey questions and records his or her own answers without the presence of a trained interviewer.
On-line survey	This approach utilises Internet technologies to acquire information faster and constant reporting of results.

Source: Hair, et al. (2006)

Hair, et al. (2006) highlight that every survey method has its own particular points of strengths and weaknesses, accordingly in view of balancing cost and control the researcher ought to choose the favoured survey method understanding its restrictions. Therefore, in this study the preferred method was an online survey due to its ability to receive the responses faster and it simplified data collection. The inherent disadvantages, which include low response rate, was reduced by sending sampled clients weekly reminders for four week.

This option required that the sampled SMEs should have access to the internet and an email address in order to allow them to respond to the questionnaire. The questionnaire was developed online by using the Digium survey tool. This questionnaire was sent to the respondents via an email link; respondents opened the link and selected options which were applicable to their business. Upon the completion of the questionnaire online, the captured information was sent to the researcher for consolidation and analysis.

4.6 MEASURING INSTRUMENTS

Leedy and Ormrod (2005) point out that the questionnaire is a commonly used instrument to source data beyond the physical reach of the researcher. Creswell (2014) recommends that questions should not be personal or offensive in any way. Collis and Hussey (2014) advise that precise instructions should be given in order to allow the respondents to complete the questionnaire in the desired way. In this study a questionnaire was used to capture responses from the respondents. The developed questionnaire was an integration of different survey tools and extensive literature consultation from various authors (Oke, 2007; Baregheh et al., 2012; Wu & Sivalogathasan, 2013 and Yi et al., 2013). Some questions were sourced directly from the literature and others were self-developed by the researcher.

The questionnaire included the first section (Section A), which intended to source the business and the respondent's biographical information, so a nominal and ordinal scale was used. The second part of the questionnaire (Section B) focused on export opportunities, export capabilities, innovation capabilities, innovation benefits and innovation investment and this information was sourced by utilising an interval scale. The researcher used predominantly closed-ended questions with a five-point Likert scale. Few simple questions seeking yes / no responses were also included but were kept to a minimum. Collis & Hussey (2014) advise that such questions can have the effect of provoking an opinion on an issue when in fact the respondent does not hold one.

The respondents were asked to select their preferred response in relation to their company. The questionnaires were short utilising straightforward language. Respondents were guided by a short explanation that clarified what the respondents were required to do in every section.

4.7 THE PILOT STUDY

During the pilot study, the researcher tried out the questionnaire on 20 respondents who were sourced from 534 clients who had email addresses. Creswell (2014) mention that the pilot study is an initial dry run, which empowers the researcher to see how well the investigation frameworks and approach selected work in practice. Through the pilot study, the researcher can evaluate the viability of the research techniques and make changes where necessary (Collis & Hussey, 2014).

The intention of the pilot was to measure the reliability and the internal consistency of the questionnaire. The Cronbach's alpha was used to measure internal consistency and the results are presented in Table 4.2 below.

Table: 4.2 Cronbach's alpha values of measuring instruments

Measuring Instruments	Alpha Value
Innovation Capability	0,812
Export Opportunities	0,813
Export Capabilities	0, 823
Innovation Benefits	0,806
Innovation Investment	0,817
Overall Cronbach alpha	**0.89**

Based on the responses received and the result of the overall Cronbach alpha, the result was 0.89 and the questionnaire was fully adopted for implementation in the main study.

4.8 VALIDITY AND RELIABILITY

Collis and Hussey (2014) regard validity as the extent to which the research findings are accurate in their representation of the actual occurrences in a situation. In terms of the measuring instrument, validity is concerned with the soundness and effectiveness of the measuring instrument (Leedy & Ormrod, 2005). Creswell (2014) suggests that validity is concerned with whether the measuring instrument actually measures what it is supposed to be measuring.

Reliability has to do with the accuracy and precision of a measurement procedure. In practical terms, reliability is concerned with whether the same results would be obtained if a test were to be repeated by the same researcher or anybody else (Collis & Hussey, 2014). Reliability is premised on the notion that there is some sense of uniformity or standardisation in what is being measured and that methods need to consistently capture what is being explored (Creswell, 2014). Higgins (2009) mentions that the research design intends to maximise the validity and reliability of the research findings.

4.9 ETHICAL CONSIDERATIONS

Ethical research is deliberate and includes getting informed consent from the respondents and full divulgence on the outcomes of the research. Additionally the researcher must be candid about the reasons of the research and their personal motives as well as demonstrate integrity during the research process (Cooper & Schindler, 2011). Ethical clearance was sourced from the university ethical clearance committee and all sampled respondents were informed of the purpose of the research and they were requested to indicate their willingness to participate in the research. The voluntary nature of participating in the survey was emphasised and those who indicated their willingness to participate were forwarded the questionnaire. The information obtained was non-attributable and treated with confidentially.

4.10 SUMMARY

This chapter focused on the research methodology and it commenced with a review of the research objectives, research questions and the study hypothesis. Different research paradigms available to the researcher were presented and the preferred paradigm was presented. The employed sampling technique was presented and the method that will be used for data collection was outlined. The design of the questionnaire was shared and the approach that was used to test the tool was proposed. The importance of reliability and validity was emphasised and lastly the approach that was followed to ensure ethical clearance was shared. In the following chapter the results of the empirical study will be presented.

CHAPTER 5

RESEARCH RESULTS AND ANALYSIS

5.1 INTRODUCTION

In the previous chapter the methodology and the measuring instruments used to conduct the study were shared. For each instrument the respective Cronbach alpha was determined. This chapter will focus on presenting the results obtained for both the descriptive and inferential statistics. The first section will present biographical information followed by statistical relationships among the tested variables and lastly the detailed descriptive statistics as per the questionnaire, will be shared. The results were analysed by using IBM SPSS 24 (both the descriptive and inferential statistics), MS Excel was used to prepare the data and aggregate means for each question.

5.2 BIOGRAPHICAL RESULTS

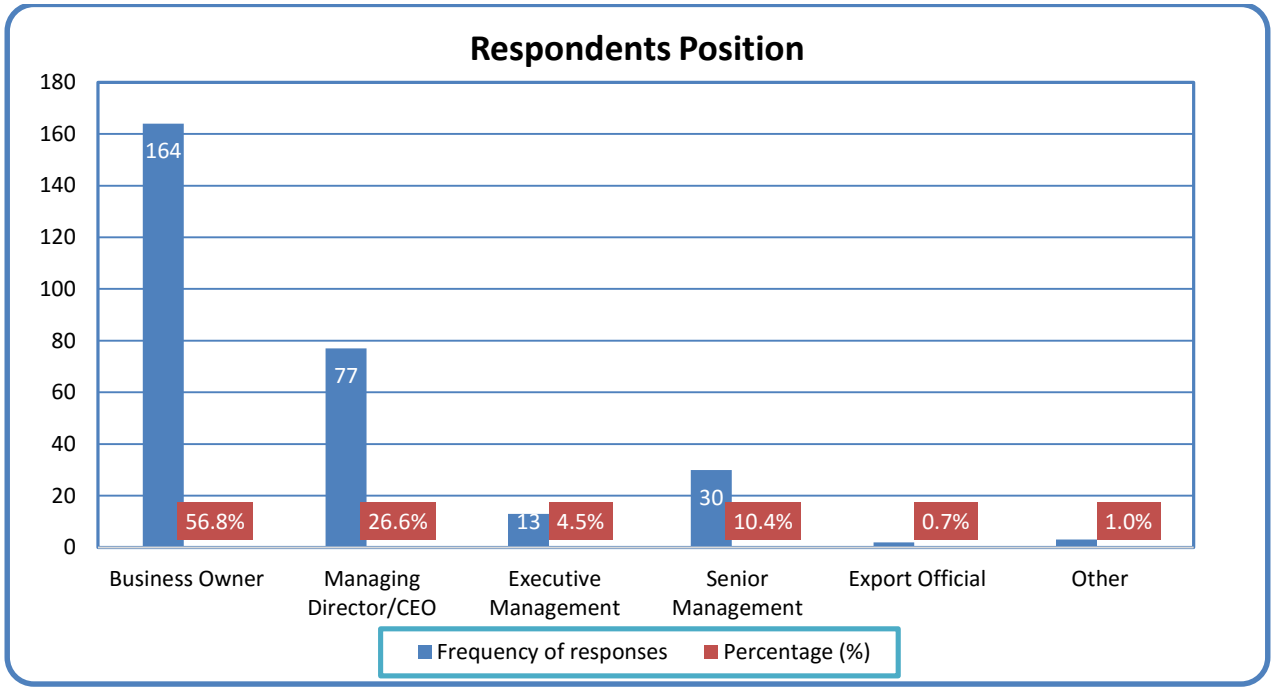
5.2.1 Respondents profile

The first section of the questionnaire focused on the respondent's position, gender and level of education, then this was followed by business related information. Tables and graphs detailing the respondent's choices are shared below:

Table 5.1: Position of the respondent

Position	Frequency of responses	Percentage (%)
Business Owner	164	56.8
Managing Director/CEO	77	26.6
Executive Management	13	4.5
Senior Management	30	10.4
Export Official	2	0.7
Other	3	1.0
Total	**289**	**100**

Figure 5.1: Position of the respondent



The information presented in Table 5.1 and Figure 5.1 indicates that most of the respondents were business owners, with 56.8% followed by managing directors or CEOs with 26.6% and the least responses were from export officials with 0.7%.

Table 5.2: Gender of the respondent

Gender	Frequency of responses	Percentage (%)
Male	155	53.6
Female	134	46.4
Total	**289**	**100.0**

Figure 5.2: Gender of the respondent

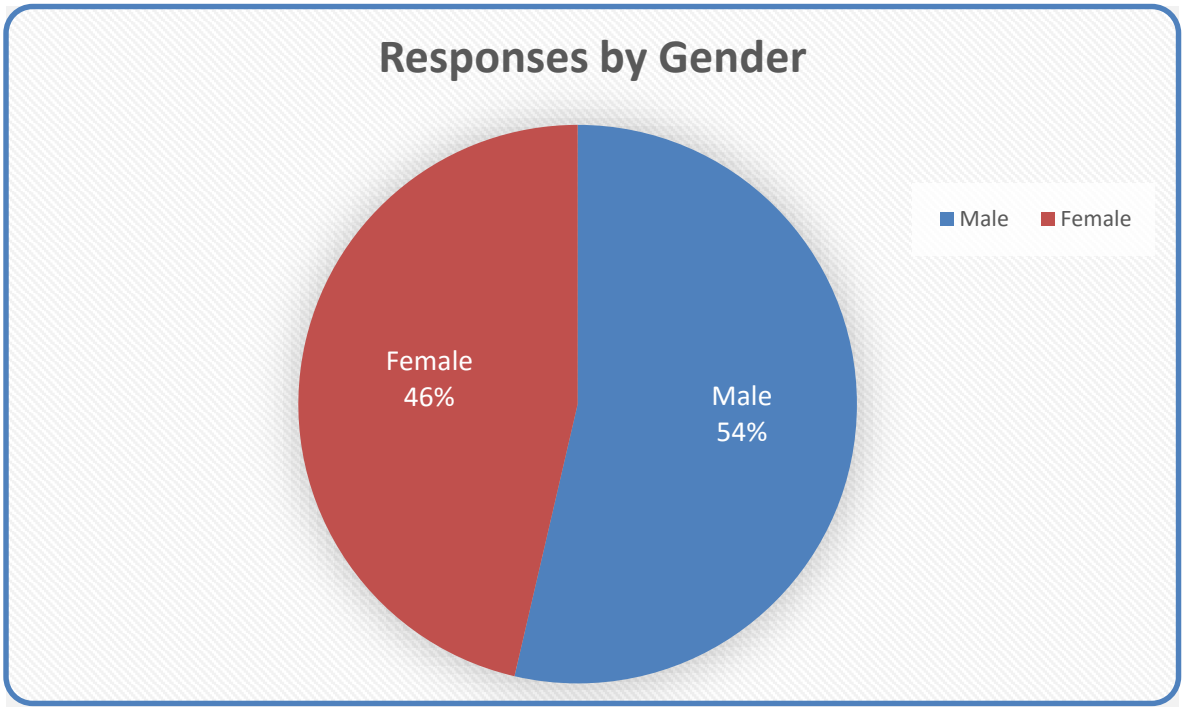
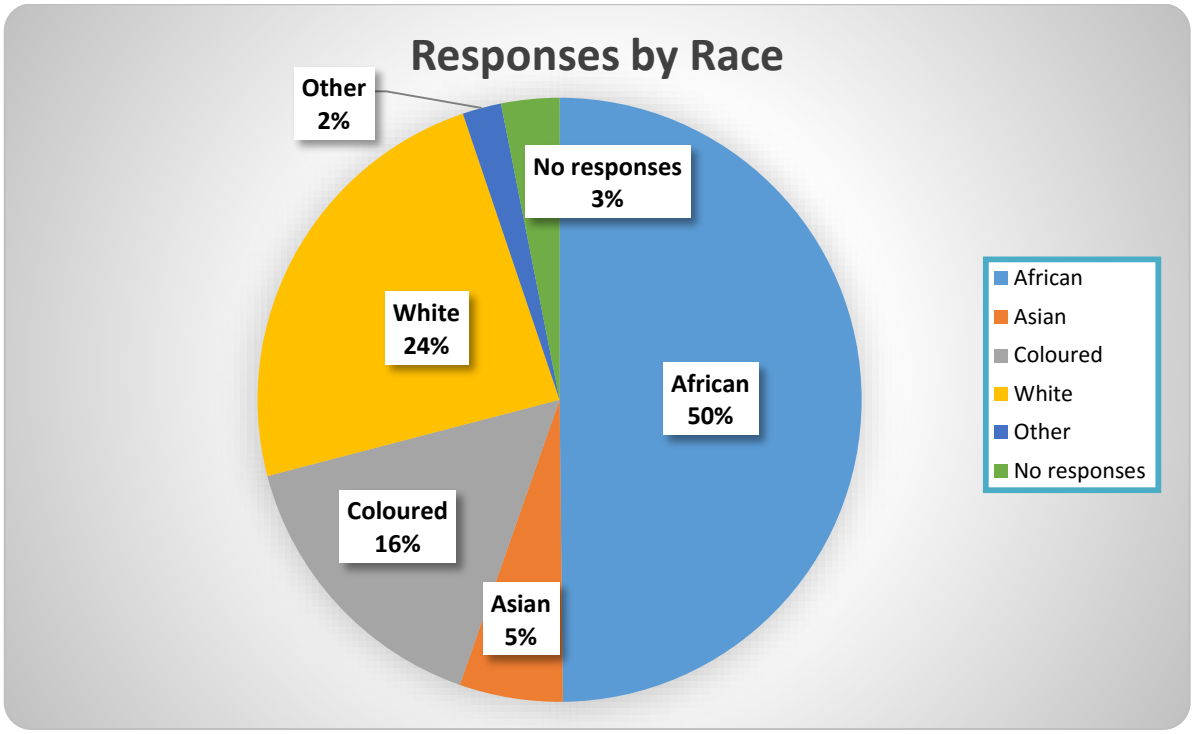


Table 5.2 and Figure 5.2 indicates that most of the respondents were male (54%) and females were 46%.

Table 5.3: Race of the respondent

Race	Frequency of responses	Percentage (%)
African	144	49,8
Asian	16	5,5
Coloured	45	15,6
White	69	23,9
Other	6	2,1
No responses	9	3,1
Total	**289**	**100.0**

Figure 5.3: Race of the respondents



The information presented in Table 5.3 and Figure 5.3 indicates that most of the respondents were African with 50%, followed by Whites with 24%, Coloured and Asians were 16% and 5% respectively. Only 3% of the total respondents did not indicate their race, while 2% selected 'other'.

Table 5.4: Respondents level of Education

Level of Education	Frequency of responses	Percentage (%)
Grade 10, Matric or Certificate	106	36,7
Diploma or Degree	162	56,1
Masters or Doctorate	15	5,2
Other	6	2,1
Total	**289**	**100.0**

Figure 5.4: Respondents level of Education

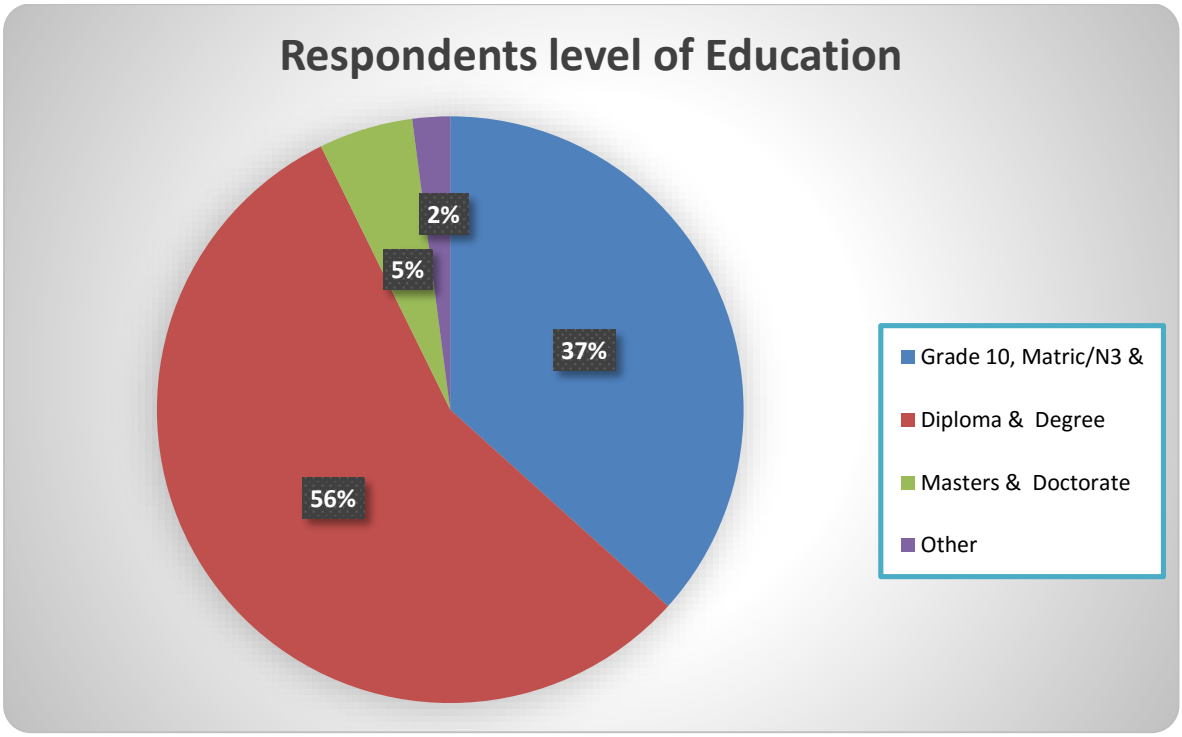


Table 5.4 and Figure 5.4 show that the majority of the respondents have diplomas and degrees at 56%, followed by those with grade 10, matric and certificates at 37%. The least responses were from those categorised as 'other' with 2% and they were preceded by those with masters and doctorate qualifications at 5%.

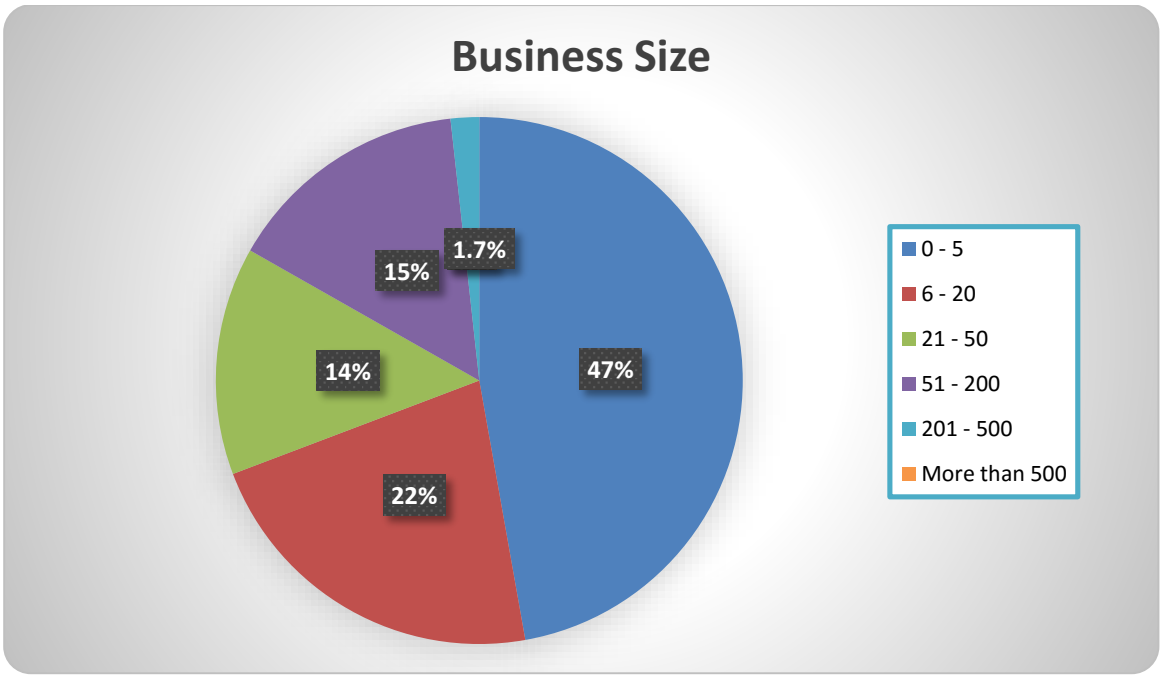
5.2.2 Business profile

This section presents the business related information which was sourced in the first section of the questionnaire. Results that are presented includes: the business size and business location. Business operations information is also shared, which includes, the number of years each business has been in operation, number of years each business has been involved in exporting, number of exports per year and lastly the number of countries that each business exports its products to.

Table 5.5: Business size

Business Size (employees)	Frequency of responses	Percentage (%)
0 - 5	138	47.2
6 - 20	63	22.0
21 - 50	40	14.0
51 - 200	43	15.0
201 - 500	5	1.7
Total	**289**	**100.0**

Figure 5.5: Business size



The information presented in Table 5.5 and Figure 5.5 indicates that most of the respondents are employing between 0 - 5 employees (47%), followed by those employing between 6 – 20 employees (22%). The least respondents were those employing 51 – 200 employees (0.7%).

Table 5.6: Business Location

Business Location	Frequency of responses	Percentage (%)
Eastern Cape	13	4,5
Free State	0	0,0
Gauteng	102	35,3
Kwazulu- Natal	29	10,0
Limpopo	9	3,1
Mpumalanga	12	4,2
Northern Cape	0	0,0
North West	4	1,4
Western Cape	98	33,9
No responses	22	7,6
Total	**289**	**100,0**

Figure 5.6: Business Location

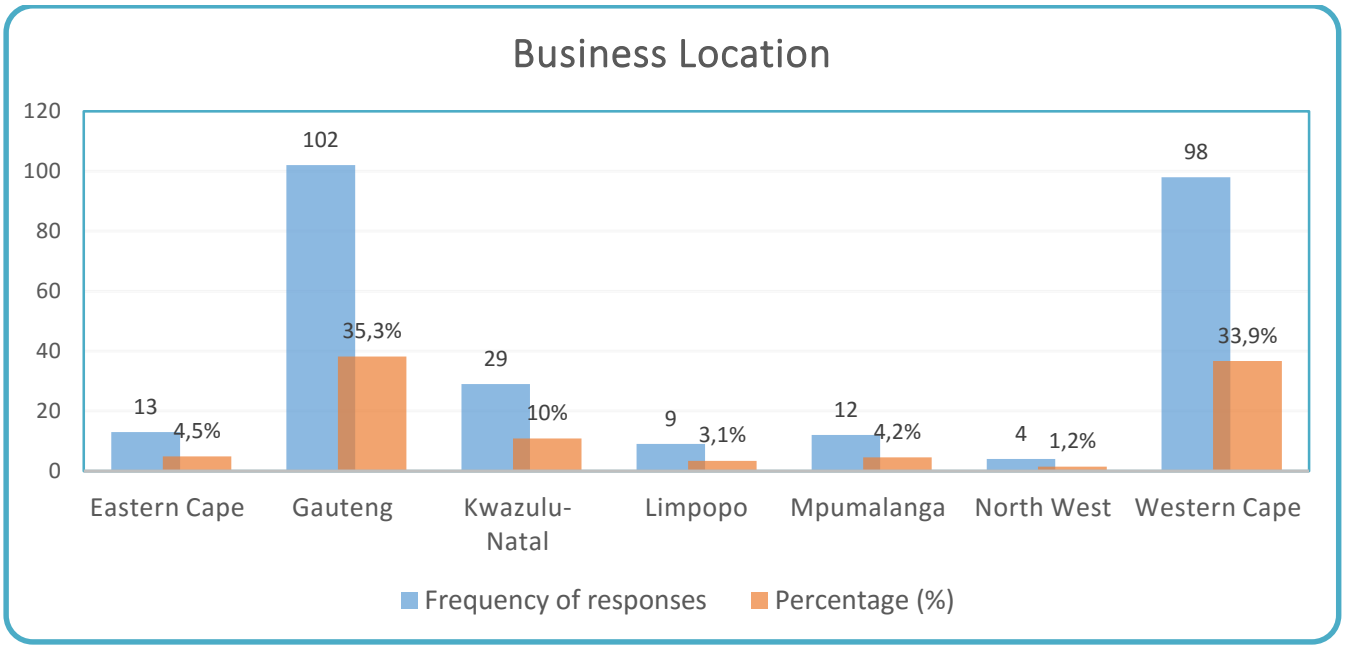


Table 5.6 and Figure 5.6 show that most of the respondents' businesses are located in Gauteng (35.3%), followed by Western Cape (33.9%) and the least responses were from North West (1.2%).

Table 5.7: Business Operations Breakdown

Years in Operation	Frequency of responses	Percentage (%)
Less than 2 years	0	0,0
2 – 10 years	155	53,6
11 – 20 years	62	21,5
More than 20 years	72	24,9
Total	**289**	**100**
Years Exporting	**Frequency of responses**	**Percentage (%)**
Less than 2 years	29	10,0
2 – 10 years	162	56,1
11 – 20 years	58	20,1
More than 20 years	40	13,8
Total	**289**	**100.0**
Number of export per year	**Frequency of responses**	**Percentage (%)**
Once	14	4,8
2 – 5 times	133	46,0
6 – 11 times	23	8,0
More than 12 times	119	41,2
Total	**289**	**100.0**
Number of countries exporting to	**Frequency of responses**	**Percentage (%)**
1 country	18	6,2
2 - 3 countries	76	26,3
4 - 5 countries	62	21,5
More than 6 countries	105	36,3
Total	**289**	**100.0**

The results in Table 5.7 indicate that most businesses have been in operation between 2 - 10 years (53.6%) and the majority of the businesses have been exporting for about 2 - 10 years (56.1%). Most businesses are exporting 2 - 5 times a year (46%) and the majority are exporting to more than six countries (36.3%).

5.3 TESTING STATISTICAL RELATIONSHIPS AMONG VARIABLES

In this section three inferential statistical tools were used to make comparisons among the selected variables. The first one was a T-test, the second one was correlation and the last one was the multiple linear regression. A brief application of each tool is presented below and the results obtained in the study are also shared.

5.3.1 T – testing

The independent sample's t-test compares one measured characteristic between two groups of observations. It evaluates whether the mean value of the test variable for one group differs significantly from the mean value of the test variable for the second group. The obtained results tell us whether the difference we see between the two independent samples is a true difference or whether it is just a random effect caused by skewed sampling (Wegner, 2012). In this study, an independent samples t-test was used to test Gender, Education and Business Size against innovation capabilities. The results obtained are presented below:

Table 5.8: T testing of gender group

	Gender	N	Mean	Std. Deviation	t	df	F	Sig. (2-tailed)
Innovation Capability	Male	155	3.880	0.4963	0.821	287	0.106	0.412
	Female	134	3.832	0.5044				

In relation to gender the following statement was tested: do males and females differ with regard to innovation capabilities? The obtained results indicates a p-value of more than 0.05, therefore males and females do not differ with regard to innovation capabilities.

Table 5.9: T testing of education

	Education	N	Mean	Std. Deviation	t	df	F	Sig. (2-tailed)
Innovation Capability	Grade 10, Matric or Certificate	106	3.839	0.2136	-1.1701	287	0.109	0.2431
	Diploma & Degree	162	3.909	0.2555				

In relation to education the following statement was tested: do business owners with matric/N3 differ with those with diplomas, with regard to innovation capabilities? The obtained results indicates a p-value of more than 0.05, therefore business owners with matric /N3 and those with diploma do not differ with regard to innovation capabilities.

Table 5.10: T testing of business size

	Business Size	N	Mean	Std. Deviation	t	df	F	Sig. (2-tailed)
Innovation Capability	0 - 5 Employees	135	3.897	0.5119	1.791	173	0.021	0.075
	21 - 50 Employees	40	3.729	0.5396				

In relation to business size the following statement was tested: do businesses with 0 - 5 employees differ from those employing 21 - 50 employees, with regard to innovation capabilities? The obtained results show a p-value of more than 0.05, therefore businesses with 0 - 5 employees and those with 21 - 50 employees do not differ with regard to innovation capabilities. The following section presents results obtained for the correlation analysis.

5.3.2 Correlations

Collis and Hussey (2009) define correlation as the degree in which two or more quantities are linearly associated. Correlation analysis is the process of studying the strength of that relationship with available statistical data. Wegner (2012) mentions that the degree of correlation between two variables is measured by the Pearson's correlation coefficient, and further points out that the strength of the correlation ranges from a very high positive correlation (1) to a very high negative correlation (-1). The table below indicates the positive scales of measurement, and a similar table can be used to explain the negative correlation.

Table 5.11: Positive correlation measurement

Correlation Strength	Measure
Very High Positive	0.90 – 0.99
High Positive	0.70– 0.89
Medium Positive	0.40 – 0.69
Low Positive	0.00 – 0.39

Source: Collis and Hussey (2009)

A strong or high correlation means that two or more variables have a strong relationship with each other, while a weak or low correlation means that the variables are hardly related (Collis & Hussey, 2009). In this study correlation analysis was conducted for five instruments (Innovation Capability, Export Opportunities, Export Capabilities, Innovation Benefits and Innovation Investment). The results obtained are shared in Table 5.12 below;

Table 5.12: Correlation results of the study

	Innovation Capability	Export Opportunities	Export Capabilities	Innovation Benefits	Innovation Investment
Innovation Capability	1.000				
Export Opportunities	0.788	1.000			
Export Capabilities	0.867	0.700	1.000		
Innovation Benefits	0.798	0.665	0.707	1.000	
Innovation Investment	0.834	0.706	0.771	0.692	1.000

From the results it can be seen that there is a high positive relationship between most of the variables tested. There are only two variables which have a medium positive correlation; that is, Innovation Benefits and Export Opportunities which have a correlation of 0,665 and Innovation Investment and Innovation Benefits which have a correlation of 0,692. Innovation Capability has a highly positive relationship with all four independent variables. These results indicate that when innovation capabilities increase, the innovation investment and the innovation benefits also increase. Similarly the export opportunities and export capabilities also increase when innovation capabilities increase.

5.3.3 Multiple Linear Regression

Multiple linear regression is used to explain the relationship between two or more independent variables and a response variable by fitting a linear equation to observed data (Collis & Hussey, 2009). Every value of the independent variable is associated with a value of the dependent variable. In this study the relationship was tested for the following independent variables and the dependent. The empirical results show that four independent variables, Export Opportunities, Export Capabilities, Innovation Benefits and Innovation Investment together explain 87% (r^2 = 0.870) movement in Innovation Capability.

Table 5.13: Multiple linear regression results

R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
				R Square Change	F Change	df1	df2	Sig. F Change
0.933[a]	0.870	0.868	0.1815	0.870	475.209	4	284	0.000

Model	Coefficients[a]						
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95,0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	0.379	0.081		4.687	0.000	0.220	0.538
Export Opportunities	0.171	0.028	0.200	6.029	0.000	0.115	0.226
Export Capabilities	0.328	0.033	0.376	10.049	0.000	0.264	0.392
Innovation Benefits	0.192	0.027	0.231	6.991	0.000	0.138	0.246
Innovation Investment	0.216	0.033	0.242	6.519	0.000	0.150	0.281
a. Dependent Variable: Innovation Capability							

5.3.3.1 Hypothesis results

For each variable a hypothesis and null hypothesis were developed and tested, and the results of each test and the respective scattered plots are shared.

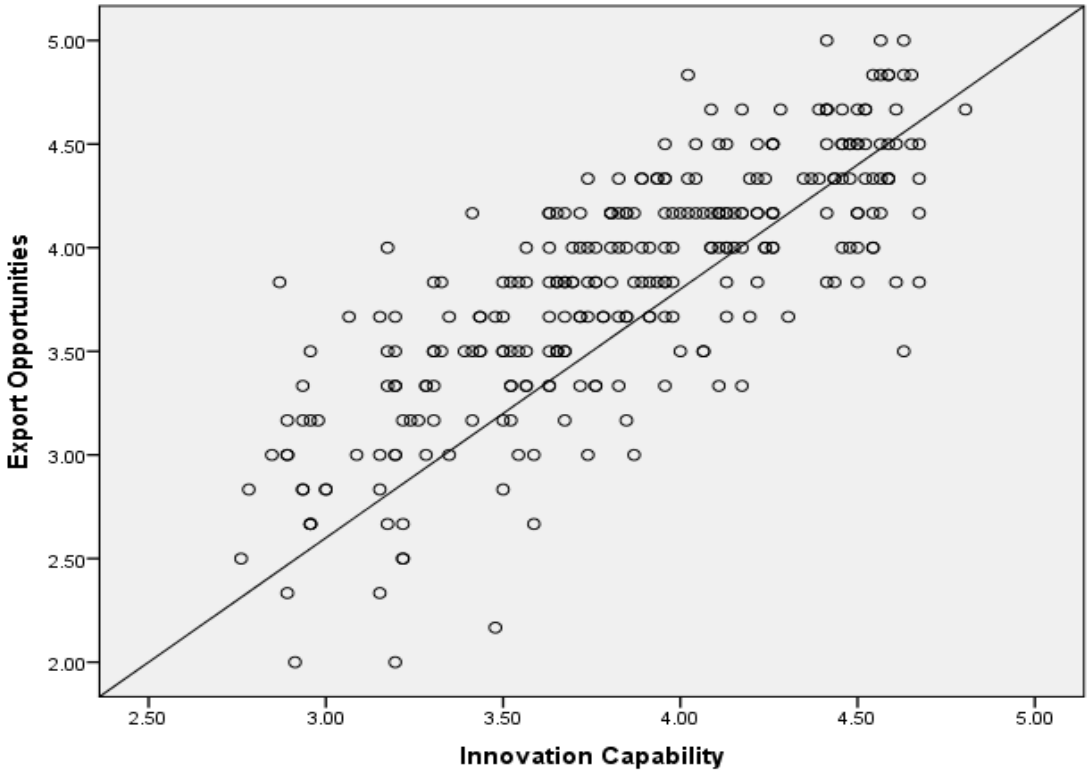
I. Influence of export opportunities on innovation capabilities

Ho_1: Export opportunities exert no influence on innovation capabilities

H_{A1}: Export opportunities have positive influence on innovation capabilities

The empirical results indicate that export opportunities are significantly related to innovation capabilities ($r = 0.171$, $p < 0.05$), the alternative hypothesis is therefore supported. Therefore this suggest that the presented export opportunities have a positive influence on the business innovation capabilities.

Figure 5.7: Scattered plot for export opportunities and innovation capabilities



The scattered plots confirms that export opportunities increase with the increase in innovation capabilities

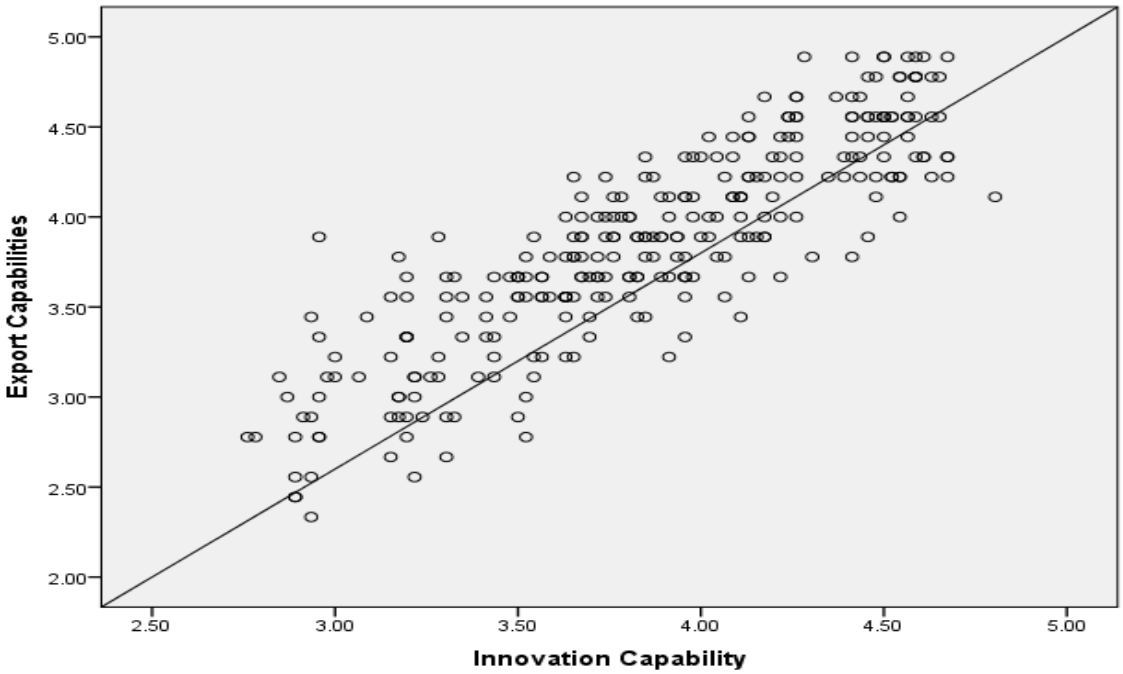
II.Influence of export capabilities on innovation capabilities

Ho_1: Export capabilities exert no influence on innovation capabilities

H_{A1}: Export capabilities have a positive influence on innovation capabilities

The empirical results indicate that export capabilities are significantly related to innovation capabilities ($r = 0.328$, $p < 0.05$) and the alternative hypothesis is therefore supported. Therefore this suggests that the presented export capabilities have a positive influence on the business's innovation capabilities.

Figure 5.8: Scattered plot for export capabilities and innovation capabilities



The scattered plot confirms that export opportunities increase with an increase in innovation capabilities

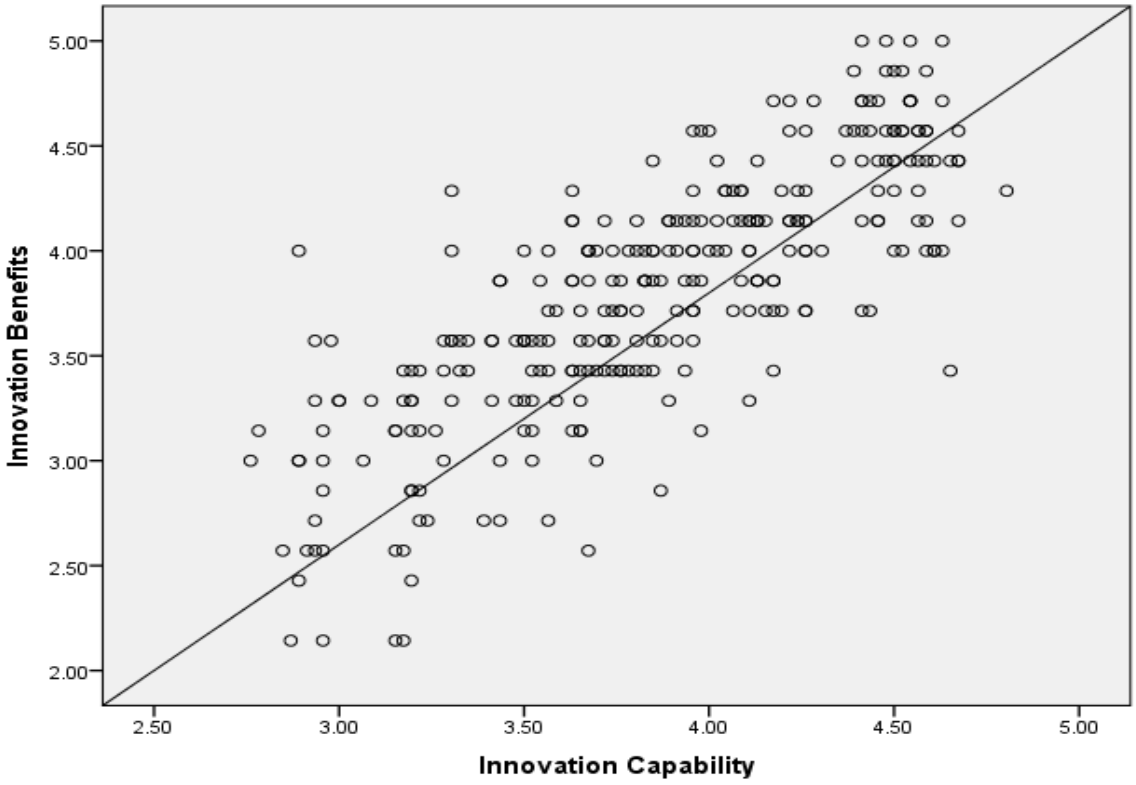
III.Influence of innovation benefits on innovation capabilities

Ho_1: Innovation benefits exert no influence on innovation capabilities

H_{A1}: Innovation benefits have a positive influence on innovation capabilities

The empirical results indicate that innovation benefits are significantly related to innovation capabilities ($r = 0.192$, $p < 0.05$), so the alternative hypothesis is therefore supported. Therefore this suggests that the presented innovation benefits have a positive influence on the business's innovation capabilities.

Figure 5.9: Scattered plot for innovation benefits and innovation capabilities



The scattered plots confirms that innovation benefits increase with the increase in innovation capabilities

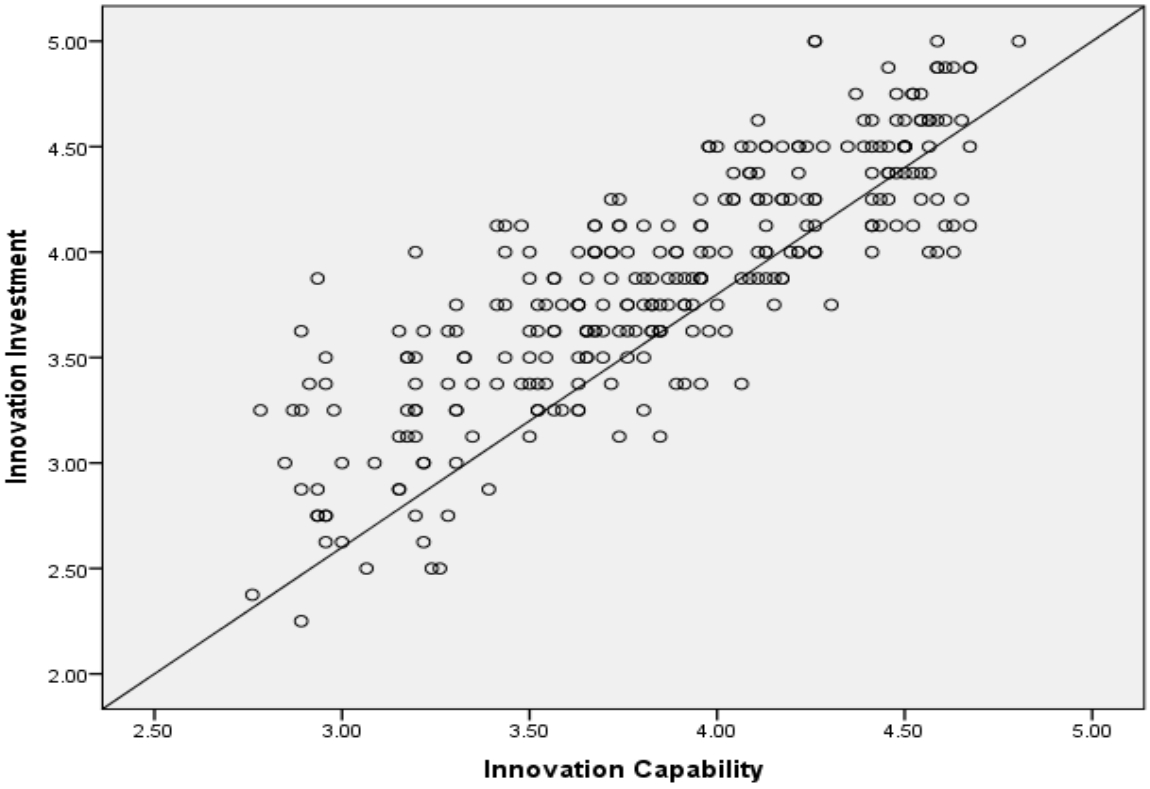
IV. Influence of innovation Investments on innovation capabilities

Ho_1: Innovation investments exert no influence on innovation capabilities

H_{A1}: Innovation investments have a positive influence on innovation capabilities

The empirical results indicate that innovation investments are significantly related to innovation capabilities ($r = 0.216$, $p < 0.05$), and the alternative hypothesis is therefore supported. Therefore this suggests that the presented innovation investments have a positive influence on the business's innovation capabilities.

Figure 5.10: Scattered plot for innovation investments and innovation capabilities



The scattered plots confirms that innovation investments increase innovation capabilities.

5.4 PRESENTATION AND ANALYSIS OF DESCRIPTIVE STATISTICS

This section present the detailed results obtained per question under each variable. These results are for questionnaires that were answered through a Likert scale measurement, these results have been grouped into three categories: strongly agree and agree (score of 5 and 4) neutral (score of 3) and disagree and strongly disagree (score of 2 and 1). The mean score and the standard deviation per each question are also presented.

Table 5.14: Innovation Capabilities

Code	Statement	Strongly agree to agree	Neutral	Disagree to strongly disagree	Mean	Standard deviation
INC1	My business has a proven track record of taking market share from its competitors.	71,97%	19,72%	8,30%	3,896	0,995
INC2	My business has a proven track record of new product innovation.	70,93%	18,34%	10,73%	3,893	1,060
INC3	My business can be considered as bureaucratic and rigid.	67,13%	22,49%	10,38%	3,782	0,999
INC4	My business emphasises rules, procedures or processes.	70,59%	20,07%	9,34%	3,855	0,961
INC5	My business enforces fixed responsibilities.	69,55%	20,42%	10,03%	3,889	1,008
INC6	The culture within my business can be considered outcome orientated.	67,13%	20,42%	12,46%	3,775	1,035
INC7	The culture within my business promotes experimentation.	71,63%	18,69%	9,69%	3,837	0,934
INC8	The culture within my business is tolerant of uncertainty.	71,97%	17,30%	10,73%	3,872	0,997
INC9	My business is able to recruit innovators.	68,51%	22,84%	8,65%	3,824	0,935
INC10	Teams within my business can be considered customer focused.	71,28%	20,76%	7,96%	3,927	0,938
INC11	Teams within my business can be considered entrepreneurial.	69,55%	19,03%	11,42%	3,824	1,044
INC12	Leaders within my business stimulate entrepreneurial behaviour.	73,70%	19,03%	7,27%	3,889	0,883
INC13	Leaders within my business inspire an innovation vision.	65,05%	24,22%	10,73%	3,789	0,990
INC14	Leaders within my business can be considered change agents.	71,97%	17,30%	10,73%	3,882	1,003
INC15	Senior Managers in my business can be considered innovation champions.	71,28%	20,07%	8,65%	3,896	0,988
INC16	Organisational politics is prevalent within my business.	73,70%	17,99%	8,30%	3,927	0,974
INC17	My business responds to what our customer want.	69,20%	20,42%	10,38%	3,848	1,013
INC18	My business understands our competitor strategies.	74,39%	17,65%	7,96%	3,907	0,936
INC19	R&D within my business is initiated from within.	70,59%	20,42%	9,00%	3,896	0,991

INC20	Technology within my business can be considered cutting edge.	67,47%	21,11%	11,42%	3,772	1,049
INC21	My business is dependent on legacy technology.	70,93%	17,30%	11,76%	3,792	0,964
INC22	My business effectively transfers knowledge.	67,47%	23,53%	9,00%	3,806	0,963
INC23	Training within my business is focused on strategic goals.	66,44%	26,30%	7,27%	3,869	0,959
INC24	My business encourages job rotation.	75,43%	16,26%	8,30%	3,931	0,948
INC25	Individuals within my business are willing to take ownership of problems.	64,01%	25,61%	10,38%	3,761	0,940
INC26	Individuals within my business are willing to act on opportunities.	71,97%	20,42%	7,61%	3,896	0,891
INC27	Individuals within my business generate ideas for problem solving.	69,20%	18,69%	12,11%	3,830	1,025
INC28	Projects within my business are well managed under conditions of change.	71,28%	22,49%	6,23%	3,938	0,895
INC29	Projects within my business are appropriately prioritised.	67,47%	23,18%	9,34%	3,817	0,923
INC30	Projects within my business deliver customer value.	71,63%	17,99%	10,38%	3,869	1,032
INC31	My business frequently reviews its business strategy.	69,90%	21,11%	9,00%	3,869	0,970
INC32	My business closely monitors trends within the market.	68,17%	20,07%	11,76%	3,799	1,008
INC33	My business has a process for screening new opportunities.	68,86%	20,07%	11,07%	3,841	1,025
INC34	My business has a strategy for turbulent times.	69,55%	21,80%	8,65%	3,862	0,983
INC35	My business is continuously looking at entering new markets.	65,40%	22,49%	12,11%	3,785	1,062
INC36	My business frequently reviews its business model.	74,05%	19,38%	6,57%	3,972	0,870
INC37	My business has created entirely new markets.	68,51%	24,22%	7,27%	3,882	0,946
INC38	Management in my organisations must use large amounts of data in order to make decisions.	71,63%	19,72%	8,65%	3,872	0,969
INC39	Management in my business relies on guidelines over data to make decisions.	66,78%	22,84%	10,38%	3,765	0,990
INC40	When making decisions, management in my business frequently experiments with different possible outcomes.	67,82%	22,15%	10,03%	3,834	0,968

INC41	Within my business, management is able to make rapid decisions.	71,63%	19,38%	9,00%	3,869	0,974
INC42	My business has in the past created a wide range of products.	71,63%	18,69%	9,69%	3,882	0,954
INC43	My business has in the past utilised product creation enablers for new product creation.	67,47%	25,95%	6,57%	3,841	0,925
INC44	My business has in the past successfully overcome market turbulence.	74,74%	16,61%	8,65%	3,938	0,933
INC45	My business has in the past successfully adapted to change.	70,93%	21,11%	7,96%	3,910	0,953
INC46	There has previously been major restructuring in my business.	70,59%	18,34%	11,07%	3,855	0,986
N = 289; Mean = 3,858 ; Std Dev =0.974						

The review of the responses reveal that most assessed SMEs possess innovative capabilities. The majority of the responses agree with the survey statements and their responses range between 75,43% where SMEs indicate that their organisations encourages job rotation to 64,01% where SMEs indicate that individuals within their businesses are willing to take ownership of problems. Other notable responses are the following;

- 74,74% of the respondents agree that their businesses have in the past successfully overcome market turbulence.
- 74,39% of the respondents indicated that their businesses understand competitors' strategies.
- 74,05% of the respondents agree that their businesses frequently review their business model.
- 73,70% of the respondents agree that leadership within their businesses stimulate entrepreneurial behaviour, and similar results were obtained for the prevalence of politics within their businesses.
- 71,97% of the respondents indicated that culture within their business is tolerant of uncertainty and individuals within their businesses are willing to act on opportunities. Similar results were obtained where respondents indicated that their businesses have a proven track record of taking market share from its competitors.
- 71,63% of the respondents indicated that management is able to make rapid

decisions and has in the past created a wide range of products. Similar results were obtained where respondents agreed that culture within their businesses promotes experimentation and projects that they embark upon deliver value for customers.

- 71,28% of the respondents indicated that projects within their businesses are well managed under conditions of change and teams in their businesses are customer focused.
- 35,99% of the respondents did not agree that individuals within their business are willing to take ownership of problems.
- 34,95% of the respondents did not agree that leaders within their business inspire an innovation vision.
- Interestingly, 34,60% of the respondents did not agree that their businesses are continuously looking at entering new markets.

Table 5.15: Export Opportunities

Code	Statement	Strongly agree to agree	Neutral	Disagree to strongly disagree	Mean	Standard deviation
EXO1	My business considers the impact of geographical distance when seeking export opportunities.	71,63%	17,30%	11,07%	3,882	1,024
EXO2	My business considers the economic development status of a country before embarking on export.	65,40%	20,42%	14,19%	3,734	1,045
EXO3	Cultural similarities is an important factor when identifying export opportunities?	67,47%	21,11%	11,42%	3,785	0,998
EXO4	Language is an important factor when identifying export opportunities?	69,20%	20,42%	10,38%	3,785	1,001
EXO5	Existing trade agreements impact my business decision to pursue export opportunities.	72,32%	17,99%	9,69%	3,879	0,944
EXO6	Export requirements hinder my business decision to pursue export opportunities?	70,59%	20,42%	9,00%	3,903	0,995
N = 289; Mean = 3,828 ; Std Dev =1.001						

The following responses were obtained regarding export opportunities:

- 71,63% of the respondents agreed that their businesses consider the impact of geographical distance when seeking export opportunities.
- 72,32% of the respondents agreed that existing trade agreements impact their business decision to pursue export opportunities.
- 70,59% of the respondents agreed that export requirements hinder their businesses decision to pursue export opportunities.
- 34,61% of the respondents did not agree that their business considers the economic development status of a country before embarking on exporting.

Table 5.16: Export Capabilities

Code	Statement	Strongly agree to agree	Neutral	Disagree to strongly disagree	Mean	Standard deviation
EXC1	My business can meet current export demands.	70,93%	18,34%	10,73%	3,907	1,008
EXC2	My business has personnel skilled in international markets.	69,20%	21,11%	9,69%	3,879	1,008
EXC3	My business can identify export partners in the international market.	64,01%	22,84%	13,15%	3,706	0,986
EXC4	My business has the ability to negotiate export transactions with international partners.	75,43%	16,26%	8,30%	3,931	0,948
EXC5	Relationship management is important in initiating exports for my business.	68,17%	20,42%	11,42%	3,817	1,013
EXC6	My business adapt easily to changing export market.	74,74%	17,30%	7,96%	3,962	0,955
EXC7	My business has necessary management skills to initiate exports.	64,01%	22,84%	13,15%	3,723	0,989
EXC8	My business has adequate marketing capabilities to initiate exports.	72,66%	17,30%	10,03%	3,903	1,006
EXC9	My business product quality is adequate to initiate exports.	70,24%	18,34%	11,42%	3,830	0,991
N = 289; Mean = 3,851 ; Std Dev =0.989						

The following responses were obtained regarding export capabilities:

- 75,43% of the respondents indicated that their businesses have the ability to negotiate export transactions with international partners.
- 74,74% of the respondents indicated that their businesses adapt easily to changing export market.
- 72,66% of the respondents agreed that their businesses have adequate marketing capabilities to initiate exports.
- 70,93% of the respondents agreed that their businesses can meet current export demands.
- 70,24% of the respondents agreed that their product quality is adequate to initiate exports.
- 35,99% of the respondents did not agree that their business can identify export partners in the international market and that they have necessary management skills to initiate exports.

Table 5.17: Innovation Benefits

Code	Statement	Strongly agree to agree	Neutral	Disagree to strongly disagree	Mean	Standard deviation
INB1	Better resource allocation	67,47%	21,11%	11,42%	3,779	0,993
INB2	Greater market share	70,93%	21,11%	7,96%	3,862	0,933
INB3	High employee morale	66,09%	21,80%	12,11%	3,810	1,022
INB4	Improved competitiveness	66,09%	19,72%	14,19%	3,727	1,092
INB5	Improved customer satisfaction	66,44%	21,45%	12,11%	3,761	1,025
INB6	Improved financial performance	72,32%	17,65%	10,03%	3,872	1,000
INB7	Increased productivity	65,74%	23,53%	10,73%	3,803	1,003
N = 289; Mean = 3,802 ; Std Dev =1.010						

The following responses were obtained regarding innovation benefits:

- 72,32% of the respondents indicated that the benefit of innovation is improved financial performance.
- 70,93% of the respondents indicated that the benefit of innovation is greater market share.
- 33,91% of the respondents did not agree that the benefit of innovation is improved competitiveness and high employee morale.

Table 5.18: Innovation Investment

Code	Statement	Strongly agree to agree	Neutral	Disagree to strongly disagree	Mean	Standard deviation
INP1	Budget allocation for Innovation	66,78%	22,15%	11,07%	3,841	0,984
INP2	Provide incentives for Innovation	66,44%	23,18%	10,38%	3,785	0,977
INP3	Provide Time and Space	74,05%	15,92%	10,03%	3,910	1,017
INP4	Employee innovation is recognised	72,66%	16,96%	10,38%	3,872	1,004
INP5	Employee involvement in decision making	71,63%	19,38%	9,00%	3,869	0,952
INP6	Employee Training	71,97%	19,38%	8,65%	3,927	0,978
INP7	Encouraging responsible risk taking	68,86%	21,80%	9,34%	3,830	0,951
N = 289; Mean = 3,862; Std Dev =0.980						

The following responses were obtained regarding innovation Investment:

- 74,05% of the respondents indicated that they provide time and space for innovation.
- 72,66% of the respondents indicated that employee innovation is recognised in their businesses.
- 71,97% of the respondents indicated that they provide employee training as an investment for innovation.
- 71,63% of the respondents indicated that employees are involved in decision

making in their businesses.

- 33,56% of the respondents indicated that they do not provide incentives for innovation.
- 33,22% of the respondents indicated that they do not have budget allocated for innovation.

5.5 SUMMARY

In this chapter empirical results that were obtained in the study were presented from the responses obtained from 289 respondents across South Africa, mainly business owners and business managers. The collected information was analysed for both descriptive and inferential statistics. The demographic information revealed that the majority of the respondents are African (51%), and male (54%). Most respondents have degrees (31,3%). On business related information, most respondents are employing between 0-5 employees (47,2%). Higher responses were from businesses in Gauteng (38,2%). Most businesses have been in operation between 6-10 years (36,4%) and they have been exporting between 3-5 years (32,9%). Most businesses export between 2-5 times per year (48%) and they are exporting to more than six countries (40.2%).

The t test revealed that gender, level of education and business size do not influence the business's innovation capabilities. The correlation results indicated that export opportunities, export capabilities, innovation benefits and innovation investments are positively related to innovation capabilities. The multiple linear regression results and scattered plots confirmed that all independent variables are positively related to the dependent variable. The detailed responses were also presented with their respective mean and standard deviations, and most responses were in agreement with the statement asked. The average mean and the standard deviation in each variable were as follows: Innovation capability (3,858 and 0.974), Export opportunities (3,828 and 1.001), Export capabilities (3,851 and 0.989), Innovation benefits (3,802 and 1.010) and Innovation investment (3,862 and 0.980). The following chapter will present the summary, conclusions and recommendations from the study. It will also highlight the challenges encountered during the study and possible focus areas for future research.

CHAPTER 6

RESEARCH FINDINGS, RECOMMENDATIONS AND CONCLUSION

6.1 INTRODUCTION

In chapter five the results of the study was presented and a detailed analysis which focused on the descriptive and empirical analysis was conducted. Through the use of inferential statistics, deductions were made about the relationships between innovation capability and selected biographical indexes. The correlations analysis was conducted to assess the relationship between dependent and independent variables. Detailed descriptive statistics analysis allowed for a deeper understanding of the respondents perceptions about innovation capabilities and also highlighted further areas to be explored in future studies.

This final chapter will begin by addressing the study's main problem and the stated research questions. A summary of what has been learned through the completion of this study will also be shared. The broader meanings behind the results will be discussed as recommendations, more emphasis will be placed on the managerial implications for small business owners and managers, based on the literature reviewed and the results obtained.

6.2 SUMMARY OF RESEARCH FINDINGS

The study set out with the main objective of establishing how innovation can be used by South African SMEs to improve export opportunities. To accomplish this, the need to assess SMEs' innovation capabilities was used to understand SMEs' ability to innovate. Romijn and Albaladejo (2002) mentioned that SMEs with strong innovation capabilities can make a valuable contribution to a country's competitiveness. This view was supported by Du Preez et al. (2009) who agreed that innovation capability focuses on ensuring that the organisation is equipped with appropriate strategies, structures, culture, leadership techniques and resourcing tactics to support successful execution

of innovation initiatives. Dadfar, Dahlgaard, Brege and Alamirhoor (2013) maintained that innovation can only take place if the organisation has innovation capability.

The study was conducted because of direct dependencies between innovation capability and the ability to realise innovation. The following research questions were necessary to guide the study, and literature and empirical results shared insights on the importance of these questions. Each of these research questions and a summary of the corresponding findings are discussed further.

6.2.1 How innovative are South African SMEs?

In chapter 2 the literature on innovation was presented with a particular focus on innovation capabilities, the intention was to understand the importance of innovation capabilities as an enabler for an organisation to become innovative. The literature presented different views by various authors on how innovation capabilities are defined and also measures that can be used to assess an organisation's level of innovation.

The analysis of the empirical result revealed that all surveyed SMEs mentioned that they are innovative, but the detailed descriptive statistics revealed that SMEs with innovative capabilities, ranged between 65% and 75%. The comparison between the two measures indicate that some SMEs believe that they are innovative, even though they do not have innovative capabilities. It is possible that some innovative South African SMEs do not have sustainable innovative practises and they only innovate irregularly. This finding presents an opportunity for SMEs to continuously assess their innovation output and the frequency of innovation as this can be a key enabler in expanding their market both locally and globally.

There were various elements being measured by the innovation capability instrument, and the results obtained indicate that SMEs rate overcoming market turbulence, understanding competitor's strategies, frequently reviewing business model, leadership role in stimulating entrepreneurial behaviour, business tolerance of

uncertainty and individual's willingness to act on opportunities as the greatest contributors to the organisation's innovation capabilities.

6.2.2 Do South African SMEs invest in innovation?

The objective of this section was to understand the amount of investment that South African SMEs make in order to ensure that their businesses are innovative and more competitive. This was particular important because SMEs have limited resources, unlike large businesses, therefore they must use their resources rationally. The literature suggests that iinnovation occurs when organisations, with high levels of learning capabilities, encourage employees to question organisational and industry norms and challenge existing assumptions and orthodoxy (Lages, Silva & Styles, 2009).

The analysis of the empirical results revealed that the majority of the surveyed SMEs mentioned that they are investing in innovation, but the detailed descriptive statistics revealed that SMEs, who are investing in innovation, ranged between 66% and 74%. The results highlighted that most SMEs are providing time and space for innovation, they recognise employee innovation, they invest in training their employees and employees are involved in decision making. It was also noted that 33% of the respondents do not have a budget for innovation and they do not provide incentives for innovation.

These results present an opportunity for SMEs to ensure that their level of innovation is increased. If SMEs set aside a specific budget to support innovation, this initiative can mitigate the initial risk of innovation and drive the organisation to improve their innovation output. The innovation budget can ensure that innovative employees are provided with incentives to encourage them to come up with good, innovative ideas that can improve the business level of competitiveness.

6.2.3 Do South African SMEs see the benefit of innovation?

The purpose of this section was to understand if South African SMEs see the benefits that their organisations can realise if they invest in innovation. The reviewed literature presented different benefits that organisations can realise due to innovation. The contrast was made between the responses obtained in the empirical study and those recommended by the literature. The literature highlights some of the benefits that SMEs can also realise though investing in innovation. Direct benefits for a business include: increased employee motivation, higher levels of creativity, employee autonomy, stronger teams and strategic recommendations from all employees.

The analysis of the empirical result revealed that the majority of the surveyed SMEs see the benefits of innovation. The detailed descriptive statistics revealed that most responses were ranging between 66% and 72%. The results highlighted that the greatest benefits of innovation are improved financial performance and greater market share. It was interesting to note that 33% of the respondents believed that innovation does not improve employee morale, a view which is not supported by the literature. This observation could be explained by the level of investment that the organisation put in place to ensure that they improve their level of innovation. Also, 33% of the organisations indicated that they do not have the budget for innovation and they do not have incentives for innovation.

This results present a list of benefits that SMEs can obtain by investing in innovation. As mentioned in the literature some of the benefits might be sector or industry specific but others cut across all sectors or industries. SMEs should identify upfront the measure they want to see being improved by innovation, then embark on the drive to ensure that resources are provided to realise those benefits. Innovation investment and innovation benefits are interdependent; one element has a direct influence on the other. The organisation's structure and culture could be some of the limiting factors which result in innovation benefits not being realised. To overcome this, business owners should provide top-down support to employees, as well as providing clear roles and responsibilities while allowing individuals the freedom to explore as they see fit.

6.2.4 Do innovative SMEs pursue export opportunities?

The intention of this section was to understand if innovative South African SMEs are identifying and putting measures in place to ensure that they expand their market beyond South African borders. This was of significant importance because SMEs, who are serving international markets, are globally competitive. The reviewed literature highlighted views of different authors regarding the link between innovation and exports. The contrast was made between the responses obtained in the empirical study and those recommended by the literature.

The analysis of the empirical results revealed that all of the surveyed SMEs are exporting and they are all innovative. The majority of the respondents have been exporting for about 2 - 10 years (56.1%) and most of them are exporting about 2 - 5 times a year (46%), while the majority are exporting to more than six countries (36.3%). The least amount of SMEs have been exporting for less than 2 years (10.0%) and they are exporting once per year (4,8%); in addition, they are exporting to one country (6,2%).These results highlight that as much as all surveyed SME's are innovative and they are all exporting, the level of innovation and the exporting frequencies differ.

Therefore, SMEs should continuously scan the global environment for opportunities that can improve their business performance. Various authors emphasise the concept of globalisation, as this phenomenon threatens the former safe markets for local businesses. Therefore, for businesses to be sustainable, grow and be competitive, they should focus on creating innovative products that are marketable globally and continuously seek new markets. The literature in chapter 3 presents different approaches that can be used to identify new markets. Key factors which influence market selection, like geographical distance, economic development of the targeted country, cultural distance, language and export barriers, have a major influence on the business's decision to export.

6.2.5 What can be done to encourage non exporting SMEs to pursue export opportunities?

Chapter 3 focused specifically on presenting export opportunities and capabilities that SMEs require in order to endure that they expand their market internationally. Factors that contribute to export market selection were presented. Different tools that can be used by SMEs to identify export opportunities were shared. Authors such as Cuyvers (2004) emphasise the importance of selectivity when an organisation intends to pursue export markets. Through selectivity organisations can avoid unpleasant experiences, which can discourage them in pursuing future opportunities.

Key factors which organisations should consider includes level of accessibility to information, targeted county's political risk factors, macro-economic indicators, market size and prospect for future growth. Of similar importance is the assessment of existing bilateral agreements which can prevent successful market development. Four major exports markets for South African organisations were profiled as potential initiates for non-exporting or infant SMEs. South Africa enjoys a favourable relationship with the European Union, and it is the only country in Sub Saharan Africa whose relations are on the strategic level.

The EU has developed a help desk to ensure that potential exporters are provided with trade related information. The USA initiated an AGOA, which provides Sub Saharan Africa countries with preferential treatment by ensuring that their products are sold in a market with the highest spending power per family in the world. South African businesses are currently taking full advantage of the presented opportunities. Another favourable export market for South African businesses is the BRICS market. SMEs have an opportunity to expand their market to these member states, which have a stronger relationship with South Africa. Currently China is enjoying the biggest benefits due to the size of its economy, but other relevant issues like the level of openness of the member state's economy needs to be addressed to ensure that South Africa SMEs equally benefit from such agreements.

The more accessible market for South African SMEs is the African market, where most South African SMEs do not have added pressure, as they do in the more developed economies with stringent requirements. The African continent has been identified as comprising some the fastest growing economies in the world. Therefore this presents an opportunity for South African SMEs to exploit these opportunities. Export capabilities are also a key driver in ensuring that available export opportunities are pursued. The literature presents key capabilities that the organisation should possess, and these include: relationship capabilities, marketing capabilities, adaptive capabilities management skills, learning ability and ability to present the product of an acceptable quality. In this study the provision was made for non-exporting clients to indicate factors that they feel are important to ensure that they engage in exports.

As indicated earlier all clients who responded to the questionnaire are currently exporting. They identified the following factors as key considerations when expanding their market internationally: impact of geographical distance, existing trade agreements and export requirements. A third, 34% of the respondents, mentioned that they do not consider the economic development status of the country before they embark on export opportunities. This also reflects a divergence from the literature which indicated that the economic status of the targeted country is important in determining the targeted export market. This could be due to the SMEs exporting niche products that are required in any country, irrespective of its economic development status.

In relation to export capabilities the empirical results reflected that ability to negotiate export transactions with international partners, the ability to adapt to changing export markets, marketing skills, ability to meet export demands and product quality are the most important export capabilities that organisations should possess. Again just over a third, 36 % of the respondents, indicated that they do not have necessary skills to initiate exports. This highlights that probably they are currently utilising external agents or they are receiving support from government departments or agencies.

This finding presents an opportunity for SMEs to apply the proposed tools to filter viable export opportunities and ensuring that they invest their resource and skills in pursuing the opportunities that will be profitable. Another opportunity is for business owners to invest in gaining the necessary skills to identify and initiate export ventures. There are various institutions and business chambers which are driving export improvement programmes, and business owners can align themselves with those initiatives. Non exporting SMEs, who seek to expand beyond South African borders, can participate in trade missions. Government departments like the DTI are subsidising some of these trade missions.

The study argues that, if South African SMEs invest in improving their innovation capabilities, they can improve their innovation output. This will ensure that developed products are unique and they can be attractive to the international market. Examples of various existing opportunities are presented that SMEs can take advantage of. Therefore it is necessary for an organisation to create an environment that is conducive to enable innovation to prosper. There are many potential investments that an organisation can implement to ensure that they increase their innovation output, but if innovation is not given priority as a driver to access export markets. More and more SMEs will continue to offer their products to the domestic market and miss out on available export opportunities.

6.3 MANAGEMENT IMPLICATIONS AND RECOMMENDATIONS

The literature and results obtained through the empirical study offer South Africa SMEs a number of lessons, such as in order for SMEs to improve their innovation output they must first focus on refining their innovation capabilities. A picture is painted that SMEs' ability to innovate is dependent on a number of factors and business owners should understand that it is not their sole responsibility to come up with innovative ideas; they should create an environment where innovation ideas can be generated anywhere in an organisation.

The results indicated that all SMEs surveyed indicated that they are innovative, but with detailed assessment of their innovation capabilities, it was observed only about

70% mentioned that they possess innovative capabilities. For SMEs to improve their level of innovation they should put measures in place to ensure that innovation output is continuously improved. This could be achieved by allocating employees' time and space for innovation, providing employees with training and involving them in decision making. Business owners can set aside budget to ensure that innovation initiatives are well resourced and innovative employees are recognised and rewarded, which can enforce the desired culture.

The bilateral trade agreements and regional cooperation agreements will only benefit SMEs who show that their product is competitive enough to transcend global competition. Country to country cooperation agreements signal that the South African market is not only restricted for South African SMEs, so if SMEs do not invest in innovation, with the view that they are only servicing local markets, they will be facing other global players who are expanding their market to South Africa.

Therefore the importance of improving innovation capabilities cannot be over emphasised and its direct link with innovation output, which ultimately leads to improved exports. There are a number of tools and methodologies that SMEs can use to access export opportunities. In order to see changes in their business performance, SMEs must also improve their skills to ensure that they are able to take advantage of those presented export opportunities. This includes improving their negotiation skills with potential export partners, marketing abilities, adaptive capabilities and ability to understand and respond to country specific legal requirements.

Infant exporters who feel that they do not have knowledge, confidence and capabilities to pursue export opportunities can start on a small scale and adjust their level of exporting by continuously learning and adjusting their practises with the goal of increasing their export market and product quantities. The most important driver to ensure that an organisation improves its innovation capabilities, innovation output and expansion to international market through exporting, is all dependent on the business owner's courage and the willingness to invest, support and nurture these initiatives.

6.4 LIMITATIONS OF THE STUDY

The following limitations were identified in this study:

- Sample size: efforts were made to get the sample size of 1000 potential respondents as this study was targeting the whole country, but the final tally ended up being 534 SMEs. A response rate of 54% was obtained, where 289 SMEs answered the survey questionnaire. This response rate enabled the researcher to conduct both inferential and descriptive statistics, but a bigger sample size would have ensure better representation.

- Sampling method: the sampling method used in this study was based on convenience sampling, therefore a potential for bias exists in the selection of respondents. In order to address this bias, demographic data was collected to confirm the appropriateness of the selection; however a true random sample would be better suited. Secondly the list of potential respondents was only collected from the Seda and the dti databases. If other sources were used, this would have provided a wider range of responses, mainly from those provinces where there were no responses.

- Method of data collection: the method of data collection was an electronic survey tool (Digium), therefore this meant that those businesses without access to the internet, mainly those with fewer employees, were eliminated from the surveyed pool. But this implies that those SMEs without access to the internet or email will struggle to maintain contact with potential export leads.

- Survey tool: while the tool utilised to collect data was designed, based on selected dimensions of innovation capabilities, great care was made to ensure that few innovation capability dimensions were selected in order to ensure that the survey tool does not take too long for SMEs to respond. A detailed extensive tool would have allowed for deeper understanding of other factors which were removed from the tool.

6.5 CONCLUSION

In conclusion, this study has answered the main research question: how innovation can be used by South African SME's to improve export opportunities. The literature and empirical results indicate that if South Africa SMEs are investing in improving their innovation capabilities that can improve their innovation output. If the innovation output is improved, SMEs will have attractive products that are appealing to the international market. Through their innovative products, SMEs can launch their products which are competitive in the international market.

This view is supported by a number of SMEs who are launching their business venture by servicing international market through exporting, even though their product is not available in the local market. Five key research questions were addressed by firstly understanding the level of innovation of South Africa SMEs. Further investigation revealed the level of investment by SMEs in order to realise innovation. The benefits of innovation were shared, which could act as a motivating factor for SMEs to pursue innovation.

This study then investigated if innovative South African SMEs are pursuing export opportunities and also the assessment of measures that can be put in place to encourage non exporting SMEs to pursue export opportunities. The empirical study assessed the SMEs' level of innovation capabilities, innovation benefits, innovation investment, export capabilities and export opportunities.

The proposed recommendations include ensuring that all employees are involved in order to improve the organisation's innovation output. Investment in training of employees was identified as an essential attribute and the provision of resources to enable innovation to thrive. The business owner's courage and the willingness to invest time, resources and learning ability were identified as the key drivers to ensure that SMEs improve their innovation capabilities, innovation output and expansion to international market through exporting.

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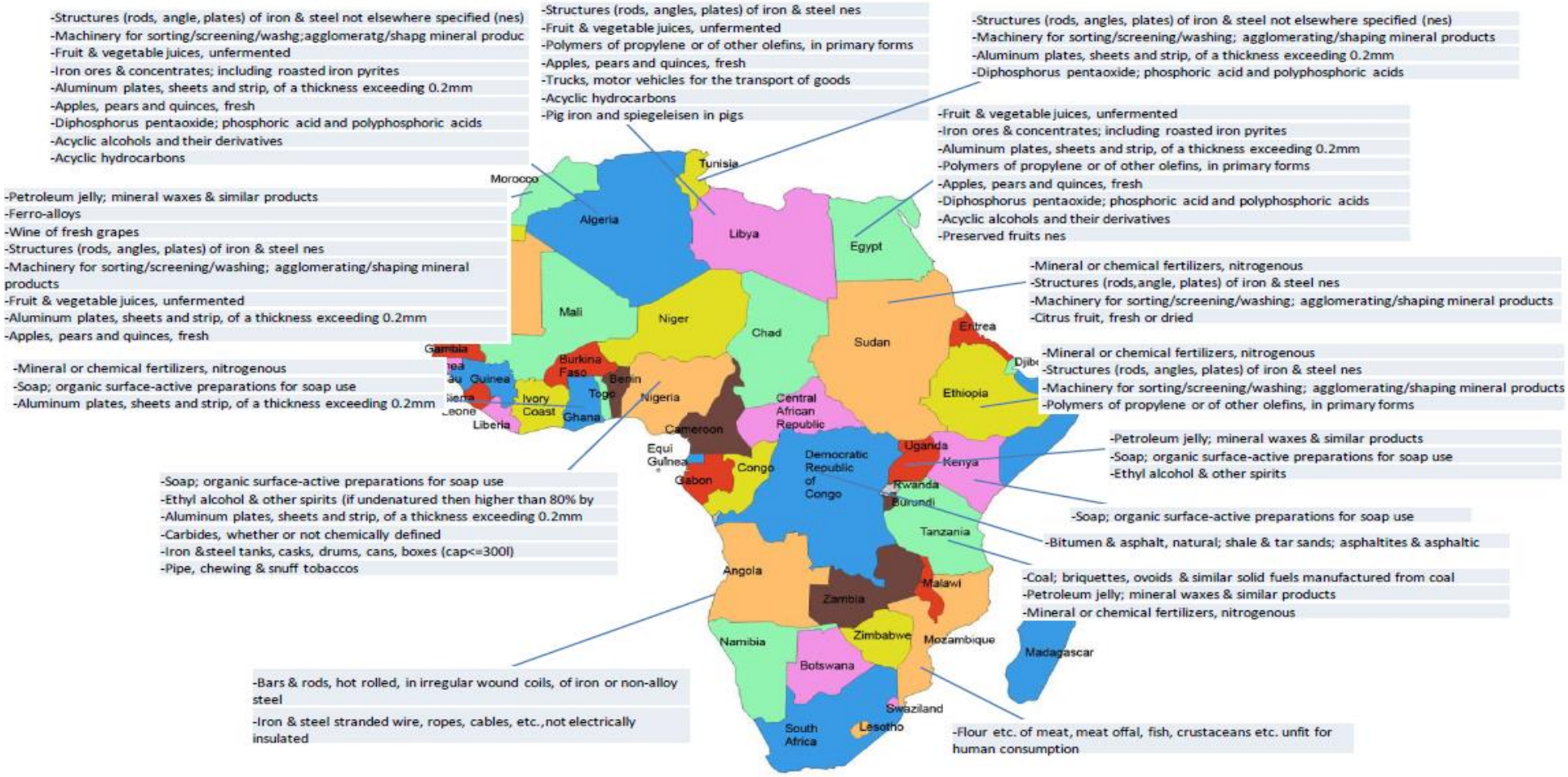
8. APPENDIX

Appendix A: Export opportunities in selected African countries where South Africa has a competitive advantage



Appendix B: Study cover page and questionnaire

Dear Recipient,

My name is Lindokuhle Mbele, I'm conducting a survey on SMEs innovation capabilities to pursue export opportunities, as part of my MBA studies at Nelson Mandela Metropolitan University. The intention of this study is to understand if SMEs are investing in innovation and if this innovation is used to expand their export potential.

Your response to this questionnaire will be highly appreciated and will assist in informing other SMEs on how to use innovation to access export opportunities. Kindly note that the responses received will be only used for this study and your confidentiality will be maintained.

Regards
Lindokuhle Mbele

(Student number: 214358402)

Export Innovation Assessment

This survey intent to assess how Small and Medium Enterprises (SMEs) utilise innovation to access export opportunities.

Section A - Biographical Information

(Select only one option that is applicable to your company)

1. Respondent's Position

- Business Owner
- Managing Director/CEO
- Top Management
- Senior Management
- Export Official
- Other:

2. Respondent's Gender

- Male
- Female

3. Respondent's Race

- African
- Asian
- Coloured
- White
- Other:

4. Company Size (Number of Employees)

- 0 - 5
- 6 - 20
- 21 - 50
- 51 - 200
- 201-500
- More than 500

5. Business Location (Province)

- Eastern Cape
- Free State
- Gauteng
- Kwazulu Natal
- Limpopo
- Mpumalanga
- Northern Cape
- North West
- Western Cape

6. How long has your business been in operation?

- Less than 2 years
- 3 - 5 years
- 6 - 10 years
- 10 - 15 years
- 10 - 16 years
- More than 20 years

7. How long has it been exporting?

- Less than 2 years
- 3 - 5 years
- 6 - 10 years
- 10 - 15 years
- 10 - 16 years
- More than 20 years

8. To how many countries does your company export to?

- 1 country
- 2 - 3 countries
- 4 - 5 countries
- more than 6 countries

9. How many product does your company export?

- 1 product
- 2 - 5 products
- 6 - 10 products
- more than 10 products

10. Do you consider your business as innovative?

- Yes
- No

11. Does your business Export?

- Yes
- No

12. Does your business intend to improve its export?

- Yes
- No

13. Your business has a systematic approach of identifying export opportunities?

- Yes
- No

Section B – (Innovation capabilities, Innovation investment, Innovation benefits, Export capabilities, Export capabilities)

No	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	My business has a proven track record of taking market share from its competitors.	**5**	**4**	**3**	**2**	**1**
2	My business has a proven track record of new product innovation.	**5**	**4**	**3**	**2**	**1**
3	My business can be considered as bureaucratic and rigid.	**5**	**4**	**3**	**2**	**1**
4	My business emphasizes rules, procedures or processes.	**5**	**4**	**3**	**2**	**1**
5	My business enforces fixed responsibilities.	**5**	**4**	**3**	**2**	**1**
6	The culture within my business can be considered outcome orientated.	**5**	**4**	**3**	**2**	**1**
7	The culture within my business promotes experimentation.	**5**	**4**	**3**	**2**	**1**
8	The culture within my business is tolerant of uncertainty.	**5**	**4**	**3**	**2**	**1**
9	My business is able to recruit innovators.	**5**	**4**	**3**	**2**	**1**
10	Teams within my business can be considered customer focused.	**5**	**4**	**3**	**2**	**1**
11	Teams within my business can be considered entrepreneurial.	**5**	**4**	**3**	**2**	**1**
12	Leaders within my business stimulate entrepreneurial behaviour.	**5**	**4**	**3**	**2**	**1**

13	Leaders within my business inspire an innovation vision.	**5**	**4**	**3**	**2**	**1**
14	Leaders within my business can be considered change agents.	**5**	**4**	**3**	**2**	**1**
15	Senior Managers in my business can be considered innovation champions.	**5**	**4**	**3**	**2**	**1**
16	Organisational politics is prevalent within my business.	**5**	**4**	**3**	**2**	**1**
17	My business responds to what our customer want.	**5**	**4**	**3**	**2**	**1**
18	My business understands our competitor strategies.	**5**	**4**	**3**	**2**	**1**
19	R&D within my business is initiated from within.	**5**	**4**	**3**	**2**	**1**
20	Technology within my business can be considered cutting edge.	**5**	**4**	**3**	**2**	**1**
21	My business is dependent on legacy technology.	**5**	**4**	**3**	**2**	**1**
22	My business effectively transfers knowledge.	**5**	**4**	**3**	**2**	**1**
23	Training within my business is focused on strategic goals.	**5**	**4**	**3**	**2**	**1**
24	My business encourages job rotation.	**5**	**4**	**3**	**2**	**1**
25	Individuals within my business are willing to take ownership of problems.	**5**	**4**	**3**	**2**	**1**
26	Individuals within my business are willing to act on opportunities.	**5**	**4**	**3**	**2**	**1**
27	Individuals within my business generate ideas for problem solving.	**5**	**4**	**3**	**2**	**1**
28	Projects within my business are well managed under conditions of change.	**5**	**4**	**3**	**2**	**1**
29	Projects within my business are appropriately prioritised.	**5**	**4**	**3**	**2**	**1**
30	Projects within my business deliver customer value.	**5**	**4**	**3**	**2**	**1**
31	My business frequently reviews its business strategy.	**5**	**4**	**3**	**2**	**1**
32	My business closely monitors trends within the market.	**5**	**4**	**3**	**2**	**1**
33	My business has a process for screening new opportunities.	**5**	**4**	**3**	**2**	**1**
34	My business has a strategy for turbulent times.	**5**	**4**	**3**	**2**	**1**

35	My business is continuously looking at entering new markets.	**5**	**4**	**3**	**2**	**1**
36	My business frequently reviews its business model.	**5**	**4**	**3**	**2**	**1**
37	My business has created entirely new markets.	**5**	**4**	**3**	**2**	**1**
38	Management in my organisations must use large amounts of data in order to make decisions.	**5**	**4**	**3**	**2**	**1**
39	Management in my business relies on guidelines over data to make decisions.	**5**	**4**	**3**	**2**	**1**
40	When making decisions, management in my business frequently experiments with different possible outcomes.	**5**	**4**	**3**	**2**	**1**
41	Within my business, management is able to make rapid decisions.	**5**	**4**	**3**	**2**	**1**
42	My business has in the past created a wide range of products.	**5**	**4**	**3**	**2**	**1**
43	My business has in the past utilised product creation enablers for new product creation.	**5**	**4**	**3**	**2**	**1**
44	My business has in the past successfully overcome market turbulence.	**5**	**4**	**3**	**2**	**1**
45	My business has in the past successfully adapted to change.	**5**	**4**	**3**	**2**	**1**
46	There has previously been major restructuring in my business.	**5**	**4**	**3**	**2**	**1**
	Kindly indicate how the following options are applicable to your business					
47	My business considers the impact of geographical distance when seeking export opportunities.	**5**	**4**	**3**	**2**	**1**
48	My business considers the economic development status of a country before embarking on export.	**5**	**4**	**3**	**2**	**1**
49	Cultural similarities is an important factor when identifying export opportunities?	**5**	**4**	**3**	**2**	**1**
50	Language is an important factor when identifying export opportunities?	**5**	**4**	**3**	**2**	**1**
51	Existing trade agreements impact my business decision to pursue export opportunities.	**5**	**4**	**3**	**2**	**1**
52	Export requirements hinder my business decision to pursue export opportunities?	**5**	**4**	**3**	**2**	**1**

53	My business can meet current export demands.	**5**	**4**	**3**	**2**	**1**
54	My business has personnel skilled in international markets.	**5**	**4**	**3**	**2**	**1**
55	My business can identify export partners in the international market.	**5**	**4**	**3**	**2**	**1**
56	My business has the ability to negotiate export transactions with international partners.	**5**	**4**	**3**	**2**	**1**
57	Relationship management is important in initiating exports for my business.	**5**	**4**	**3**	**2**	**1**
58	My business adapt easily to changing export market.	**5**	**4**	**3**	**2**	**1**
59	My business has necessary management skills to initiate exports.	**5**	**4**	**3**	**2**	**1**
60	My business has adequate marketing capabilities to initiate exports.	**5**	**4**	**3**	**2**	**1**
61	My business product quality is adequate to initiate exports.	**5**	**4**	**3**	**2**	**1**
	Kindly rate the following innovation benefits on your business					
62	Better resource allocation	**5**	**4**	**3**	**2**	**1**
63	Greater market share	**5**	**4**	**3**	**2**	**1**
64	High employee morale	**5**	**4**	**3**	**2**	**1**
65	Improved competitiveness	**5**	**4**	**3**	**2**	**1**
66	Improved customer satisfaction	**5**	**4**	**3**	**2**	**1**
67	Improved financial performance	**5**	**4**	**3**	**2**	**1**
68	Increased productivity	**5**	**4**	**3**	**2**	**1**
	My business invest the following in order to realise innovation?					
69	Budget allocation for Innovation	**5**	**4**	**3**	**2**	**1**
70	Provide incentives for Innovation	**5**	**4**	**3**	**2**	**1**

71	Provide Time and Space	**5**	**4**	**3**	**2**	**1**
72	Employee innovation is recognised	**5**	**4**	**3**	**2**	**1**
73	Employee involvement in decision making	**5**	**4**	**3**	**2**	**1**
74	Employee Training	**5**	**4**	**3**	**2**	**1**
75	Encouraging responsible risk taking	**5**	**4**	**3**	**2**	**1**

Thank you for taking your time to respond to this survey.