

**EXPORT READINESS OF SMALLER U.S. EXPORTERS
IN RESPONSE TO EUROPEAN INTEGRATION**

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Abstract

The integration of the European Community countries into one single market has created much anticipation concerning how to conduct business in the post-1992 European market. This paper seeks to illustrate how exporters at various readiness levels are contemplating the profound implications of the new business environment in Europe. The survey identifies three categories of exporters that are at different readiness levels--Ready, Preparing and Maintaining Exporters. Responses of smaller Indiana exporters in manufacturing industries to future market attractiveness in Europe, based on factors such as market characteristics, entry barriers, competitiveness, and U.S. Federal government assistance are explored. Respondents suggest that they are more concerned with natural, market-driven rather than government-imposed trade barriers in the post-1992 EC market.

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In the past few years, business executives and public policy makers worldwide have been closely monitoring the developments within the European Community (EC) and its relationships with its trade partners. The self-imposed deadline of 1 January 1993 marked the beginning of the European Community Single Market, also labeled as the New Europe or the EC-1992 Program. Currently, the EC continues the process of becoming a fully-integrated market by establishing free movement of people, goods, services, and capital among member countries. This program and resulting European unification are expected to provide many opportunities as well as potential obstacles to U.S. businesses.

Although much uncertainty remains about the outcome of the unification, the U.S. business community, and on their behalf, the U.S. government seem to be most concerned mainly about three issues: i) restrictive harmonization regulation by the EC Commission to support selected European industries, ii) the procedure of legislation, and iii) the final structure of the EC market (Hinson 1988, Farren 1992, Hauser 1993). These concerns mainly center on how U.S. companies should interpret and respond to the transformation of the European market. In this context, U.S. companies question the attractiveness of the post-1992 EC market as they assess selected market characteristics, entry barriers and competitiveness in the New Europe. These strategic variables which shape companies' decisions to enter and compete in a market (Abell and Hammond 1979) are also relevant for U.S. companies that are continuing or beginning to sell in the EC market.

The broad purpose of this paper is, therefore, to survey smaller U.S. exporters in the manufacturing industries that market their products in the EC countries. Particularly, smaller exporters' perceptions of the attractiveness of the post-1992 EC single market and their export readiness for this market are examined.

Smaller exporters in manufacturing industries have been selected as the research focus

for several reasons. First, exports of manufactured goods comprised more than 80 percent of all exports in 1991, and therefore, manufacturing industries are key to improving U.S. merchandise exports (Pittman 1992). Furthermore, a strong increase in manufactured goods exports in the last decade contributed steadily to U.S. economic growth. In 1990, merchandise exports contributed 88 percent of GDP growth (Davis 1992).

Second, smaller exporters in the manufacturing industries were selected because of their significant export commitment (Holstein and Bremmer 1989, Kaikati 1990). According to a Small Business Administration study, more than 80 percent of all U.S. exporters are small businesses. The share of small business exports directly accounts for about 20 percent of all U.S. exports by manufacturing industries through their sales offices, and indirectly through wholesalers and brokers (Swain 1989). Furthermore, small businesses are known to respond rapidly to environmental and economic changes (Campbell 1989).

However, past research on the EC Single Market program has concentrated on multinational and other large corporations (Ryans and Rau 1990). These studies primarily developed recommendations for strategists to improve U.S. corporations' competitiveness in the post-1992 EC market vis a vis their European counterparts (Quelch and Buzzell 1989, Magee 1989, Rugman and Verbeke 1991). Articles focusing on smaller exporters either proposed conceptual policy recommendations (Kaikati 1990) or utilized exploratory methods to examine opportunities and obstacles of relevant market conditions (Samiee 1990). Descriptive studies linking European market attractiveness to export readiness of smaller exporters in the post-1992 EC market are not available. Therefore, it is worthwhile and timely to examine how smaller exporters in manufacturing industries interpret the unification policies of the EC countries as these changes will constitute the new business environment in which they will have to operate.

Formation and characteristics of the EC Single Market and its significance for the U.S. economy are discussed next. Perceived impacts of EC market attractiveness on the

export readiness of smaller U.S. exporters are presented within a conceptual framework. Methodology of the study is followed by the analysis of findings. Discussion of findings and implications is provided in the final section.

Significance of the European Integration for U.S. Exports

Although the origins of the European Community go back to the early 1950s, the Single European Market program was proposed as a response to stagnating economic conditions in the 1970s and early 1980s (Wehrich 1991). In 1985, the Commission of the European Communities issued its White Paper, titled Completing the Internal Market, calling for the creation of an integrated European market by permitting free movement of people, goods, services and capital by the end of 1992 (Completing the Internal Market 1985). The White Paper, which was solely designed as an internal trade policy mechanism as opposed to an international free trade document, set a detailed timetable to eliminate physical, technical, and fiscal barriers that had been limiting socioeconomic relations among the member countries. However, U.S. business community and the Federal government emphasized international trade implications of this blueprint focusing on potential restrictive practices that could limit increased U.S. access to the post-1992 EC market (U.S. General Accounting Office 1990b).

Europe is the largest U.S. export market, accounting for 26-30 percent or over \$100 billion of U.S. exports in the last few years (Hauser 1993, National Trade Data Bank). Since 1985, U.S. exports to the EC have recorded a consistent and steady rise and stabilized in 1992 despite the current recession in many European countries (Linville 1993). Considering the potential growth of this market (Checchini 1988), that is already the world's second largest economy, the significance of the post-1992 EC market cannot be overlooked.

Clearly, European market characteristics present substantial and continuing opportunities for the U.S. exporters. However, although the early fears of a total "Fortress

Europe" have faded, the U.S. business community and Federal government are still concerned about product standards, testing and certification, intellectual property rights, protection of some service industries, public procurement, and local content laws that may operate as entry barriers into the EC market (Hauser 1993). The following section discusses how perceptions of potential entry barriers, EC market characteristics, and competitiveness in the post-1992 EC market may shape current export readiness of smaller U.S. exporters in manufacturing industries.

Export Readiness and Market Attractiveness: A Framework for Analysis

International marketing scholars and export managers alike contend that desirability and feasibility of exporting are the first step firms have to consider when assessing exporting (Cavusgil and Nason 1990). Although a variety of factors play a role in this step, market attractiveness, popularized in strategic market planning context by Abell and Hammond (1979), and others, must be assessed when determining the export readiness of smaller U.S. exporters for the post-1992 EC market. Market attractiveness consists of selected market characteristics, competitiveness in that market, financial and economic factors including entry barriers, and political factors like government involvement. As depicted in the framework in Figure 1, these variables as well as selected company characteristics are relevant to the examination of export readiness.

[Figure 1 about here]

Export Readiness for the EC Market

As readiness to export determines if exporting is a profitable opportunity for a company, it is the key variable in the entire export market development process (Cavusgil and Nason 1990). Research has shown that important decisions such as export channel utilization and information needs of a firm mainly depend on the stage of that firm's export readiness (Naor and Cavusgil 1981). As the first step in the export development process,

organizational readiness and product readiness of a firm can be assessed through computer programs like CORE--Company Readiness to Export (Cavusgil and Nason 1990). More, generally, other computer programs such as GIMS--Gauge for International Marketing Strategy (Goodnow 1985) can be employed to assess alternative international modes of entry that also analyzes the company readiness level. Such package programs have been used successfully for supporting international decision making and management training in the context of assessing readiness of the exporters-to-be.

Exporters in the manufacturing industries focused in this paper are committed and active rather than reactive or new exporters. Therefore, concepts such as company and product readiness that have been developed for businesses new to exporting and used by computer programs like CORE and GIMS are not fully satisfactory for assessing exporters' readiness targeted in this survey. Since systematic exporting is essential for sustained success in world markets, it is important to assess whether these firms use a formal approach to selling in the EC (Cavusgil and Nason 1990). Therefore, readiness of U.S. exporters who are considering to conduct business in the EC must be defined based on completeness of their strategic business plans for exporting to Europe. Accordingly, the framework depicted in Figure 1 shows the impact of market attractiveness factors on export readiness for the EC market defined by the scope of planning completed.

Attractiveness of the EC Market

Characteristics of a market are a key factor in determining the attractiveness of that market (Figure 1). As discussed earlier, current opportunities and potential growth of the EC market are too important for U.S. exporters in the manufacturing industries to overlook. Most of the projections made by the EC Commission would suggest that the successful removal of internal trade barriers and integration of the European market would lead to the creation of a larger economic pie that would constitute an attractive market for EC and non-EC firms alike (Checchini 1988, Ryans and Rau 1990). The New Europe implies that it will

be more cost effective for U.S. firms to do business within one integrated single market than with twelve individual markets displaying twelve different sets of regulations. Researchers anticipate that this will create certain benefits such as transportation cost savings, economies of scale in production and distribution, standardization of products and services, lower costs for product adaptation, and the opportunity to centralize sales and warehousing (Quelch and Buzzell 1989). As a result of the EC market size, and declining costs and prices, exporters should expect more opportunities in the post-1992 EC market (Kaikati 1990).

The second factor, potential entry barriers, is expected to impede market attractiveness for U.S. exporters (Figure 1). One group of entry barriers, termed by Porter (1985) as natural barriers, refers to market-driven factors such as industry concentration, efficiency of firms competing in the industry, industrial power of competitors and other similar factors. Some observers argue that EC officials designed the EC '92 program purposefully to foster natural barriers to entry in order to make the EC market less attractive to non-EC firms (Rugman and Verbeke 1991, Magee 1989). Others who are critical of the EC single market program assert that the EC Commission is deliberately building government-imposed trade barriers to keep foreign competitors out of the potentially lucrative European market (U.S. General Accounting Office 1990b). Among major government-imposed barriers suggesting over-protectionist measures and potential discrimination against U.S. and other non-European exporters are local content rules, technical standards and certification, export barriers, removal of intra-EC border controls in exchange for external ones, reciprocity between EC and U.S., and public procurement rules. U.S. business executives and public officials remain skeptical about the uncertainties resulting from continuing legislation in these areas fearing that it would adversely affect the success of American exporters in the EC (Hauser 1993). Such views are obviously fueled by comments of EC officials who announced in the past that the Europeans are "not building a single market to turn it over to hungry foreigners" (Sullivan 1988), which in turn encouraged the use of terms such as "Fortress Europe."

The third factor of market attractiveness, competitiveness in the post-1992 EC market, can be partly operationalized by marketing-related factors. These include all parts of the marketing mix--product, price, distribution and promotion (Ryans and Rau 1990, Quelch and Buzzell 1989). Additionally, variables such as technological changes, cost competition, lower prices, and power of clients are expected to increase competitiveness in the EC market (Samiee 1990). Removal of traditional market boundaries would increase competition in the short run as firms will try to expand within the EC market (Daems 1990). Additionally, exporters' own power, cost structure, and entry possibilities would play a positive role in their competitiveness (Samiee 1990). In contrast, some government-initiated policies such as protection of selected industries, and subsidies to specific industries may distort relative competitiveness in the market.

Fourth, government assistance can play a legitimate role "in shaping the context and institutional structure surrounding companies and in creating an environment that stimulates companies to gain competitive advantage" (Porter 1990). Following this logic, as mandated by the Omnibus Trade and Competitiveness Act of 1988, the U.S. government has devised one of the most comprehensive and well-developed information centers to help small and medium-sized exporters and other companies in EC matters become more competitive (U.S. General Accounting Office 1990a). The Single Internal Market Information Service (SIMIS) of the U.S. Department of Commerce not only publishes handbooks on how to do business in Europe, a newsletter, Europe Now, and special issues of Business America on Europe twice a year, but also organizes events such as matchmaker trade delegations to Europe, or trade fairs. In addition, some American industries like consumer electronics request R&D support from the U.S. government, especially those who admire the EC or Japanese industrial development models (Weber 1991). However, the U.S. government attempts to give only indirect aid by modifying antitrust laws to allow more cooperative research and by increasing R&D tax credits (Colborn 1990).

In spite of all available information and awareness campaigns by the U.S. government

and popular media, numerous interviews and popular magazine reports indicated that some business executives were not prepared for the European challenge in the midst of rapid changes in the EC (Kaikati 1989, Higgins and Santalainen 1989). Given the potential opportunities and obstacles in the post-1992 EC market, it has not been clear how U.S. manufacturing industries are planning to respond to these profound changes strategically and how they view public policy support. Since most reports are either in the form of anecdotes or case studies, the current descriptive study attempts to explore these questions using the framework advanced above.

Research Methodology

Sample and Respondents

This research study focused primarily on smaller exporters in manufacturing industries. Harris Business Directory's computerized data bank for the State of Indiana was used to produce a mailing list for the sample (Selectory 1992). This particular database was chosen, because of its currency, its flexibility in carrying out the sampling procedure, selecting respondents, and preparing mailing lists and personalized letters as it is computerized. From this database of approximately 1,750 exporters, the final sample size of 446 respondents was selected through a systematic sampling method with a skip pattern of three after excluding raw material, and other non-manufactured goods exporters, and larger exporters with more than 500 employees. In each SIC code selected, a proportionate stratified sampling procedure was employed to choose firms for the final mailing list as there was no statistical evidence available of differences among firms to justify other sampling methods. Of the 446 eligible respondents, 79 returned usable questionnaires after one mailing and a telephone follow-up, producing an adequate response rate of about 17.7 percent.

The questionnaires were mailed with personalized cover letters to the presidents of

each company asking them to respond within two weeks of receiving the questionnaire. As a response incentive, the respondents were offered the summary of survey data. All questionnaires were completed by presidents or senior export executives.

Since only smaller exporters in selected SIC codes of manufacturing industries were included in the survey, profiles of the manufacturing industry and employee size of responding exporters were compared with non-respondents to test for a non-response error in the sample. The sample profile generally fit the sample frame characteristics, and thus, the sample composition was considered satisfactory.

Research Instrument

A self-administered mail questionnaire was used as the survey instrument. Questions focusing on export executives' perceptions about the single European market were based on European and American official documents, a search of conceptual literature, and a review of similar surveys. To insure content validity, two researchers familiar with the Abell-Hammond framework as well as the EC Single Market, and two European Community officials familiar with the EC Single Market reviewed the questionnaire content. The European officials were former Chief Legal Counsel of the European Parliament and former Director General responsible from the Single European Market in the European Council of Ministers. These experts were asked to judge whether the topical coverage and items being used in the questionnaire represented the single market issues well.

The topical areas surveyed followed from the conceptual framework linking export readiness to EC market attractiveness:

- (1) Level of readiness of exporters for the challenges of the EC 1992 program based on completeness of their strategic export plans;
- (2) Their perceptions of the post-1992 EC market characteristics;
- (3) Perceptions of the entry barriers into the EC market;
- (4) Perceptions of competitiveness in the post-1992 EC market;

- (5) Perceptions of governmental support and assistance provided for exporters to enhance U.S. competitiveness in the EC market.

Additional data about the characteristics of responding exporters included manufacturing sector, size by employee, and primary export markets.

Data Analysis

Export readiness for the post-1992 EC market was assessed by measuring the amount of strategic export planning completed by the firm. Three descriptive categories were developed that defined each of the completion levels of their strategic plans. Subsequently, respondents were classified into these categories based on their self-reported planning levels. Profiles of exporters, then, have been obtained through simple cross-classification of each of these categories by relevant firm characteristics. Category labels, their operational definitions, number of respondents and firm characteristics for each category are given in Table 1.

Responses to independent variables of EC market attractiveness were obtained from five-point category scales. The first step of data analysis consisted of performing an exploratory factor analysis to reduce the survey variables to independent factors (Green, Tull and Albaum 1988, p. 554). Principal-components analysis yielded ten factors accounting for 72.6 percent of explained variance. These ten different factors were then labeled with appropriate factor names and classified based on strategic planning literature (Abell and Hammond 1979) into four independent variables discussed within the conceptual framework. Results of the factor analysis are reported in the appendix and analyzed in the following tables 2-5.

Next, Anova tests were used to examine differences among exporters at three readiness levels. The expectation was that differences would become apparent among exporters based on perceptions of market attractiveness and that exporters would react to the new EC market with different planning levels defining distinct export readiness levels.

Finally, for each variable t-tests were performed to test if an individual answer was significantly different from the expected neutral response. These tests indicated the direction of exporters' perception of the market attractiveness variables, i.e., whether their perceptions were more or less favorable compared to neutral view. Average numbers at the bottom of tables 2-5 were calculated across all variables and respondents to find a composite value for each of the market attractiveness factors. These numbers indicate relative distance of exporter categories from each other.

Profile of Exporting Manufacturers

To compete successfully in the new EC market, the level of readiness of exporters in manufacturing industries is of paramount importance. Therefore, for reporting purposes, these firms are classified into three categories based on their self-reported strategic international marketing planning levels--Ready Firms, Preparing Firms, and Maintaining Firms.

[Table 1 about here]

Among the responding firms, about 35 percent are classified as Ready Exporters, those which have already outlined and activated new strategic plans, or in a few cases, are ready to do so. About 37 percent of the firms, classified as Preparing Exporters, reported that they are currently working on strategic export marketing plans to compete successfully in the post-1992 EC market. Finally, about 28 percent of the respondents, classified as Maintaining Exporters, said they had no intentions of preparing any new strategic export plans that would differ from the way they have been doing business in the new EC market.

Data in Table 1 tend to show that while Ready Exporters are comprised of relatively large firms, most of the Maintaining Exporters are the smallest firms among the respondents. Preparing Firms mostly fall within the medium- sized exporters among the respondents.

Distribution of exporters among the industrial branches do not suggest any tendency-- firms in all manufacturing industries are represented in each readiness category in a more

balanced way. Regarding primary export markets, while Ready Exporters report that in the past they heavily exported to EC countries, the majority of Preparing and Maintaining Exporters indicated markets other than the EC market as their primary export market. In other words, these latter exporters seem to have little commitment and experience in the EC market.

Impact of Market Attractiveness on Export Readiness: Analysis of Findings

Perceptions of exporters on EC market attractiveness were analyzed by four factors influencing their export readiness. The following factors guide the analysis (a) market characteristics (b) entry barriers, (c) competitiveness in the EC market in the post-1992 EC market, and finally (d) U.S. government assistance in responding to the EC challenge.

Characteristics of the EC Market

According to strategic considerations, a company's response to an international market challenge is directly related to how managers view that particular market's attractiveness to the firm. Data in Table 2 reveal that exporters in all three readiness categories, but particularly Ready Exporters, expect significantly more favorable conditions in the post-1992 EC market compared to the current market situation (F9, Table 2). In other words, all exporters foresee a market growth rate higher than the current growth as well as more financial services providing an environment in which it is easier to conduct business. Particularly, the Preparing Exporters seem to have more positive perceptions here. This finding is indeed consistent with EC Commission's estimates (Checchini 1988) as well as independent researchers' and observers' analyses (Kaikati 1990, Daems 1990). Therefore, the Ready and Preparing exporters tend to strengthen their EC commitment.

[Table 2 about here]

Regarding cost-related factors, exporters in all readiness categories foresee higher costs of market information, and lower costs of transportation (F6, Table 2). Both findings

seem to be compatible with earlier observations and conceptual explanations; namely the mere size of the new European market may boost the market information costs, and the elimination of border controls and deregulation might decrease the transportation costs (Rugman and Verbeke 1991, Quelch and Buzzell 1989). As a result, in the view of all exporters, while higher market information costs make the EC market less attractive, lower transportation costs enhance attractiveness.

Among the price-related market characteristics, as Anova tests reveal, exporters in different readiness categories seem to disagree about the future price levels in Europe. Indeed, while Preparing Exporters perceive lower prices to be more likely, Ready and Maintaining Exporters suggest that it is less likely to achieve lower prices. It seems Preparing Exporters' expectations are consistent with researchers' predictions that lower prices should be expected in the New Europe (Samiee 1990, Quelch and Buzzell 1989). If these expectations and predictions are realized in the post-1992 era, the Single Market may be more attractive from a volume perspective, but it will also be more competitive because of lower margins (Samiee 1990). Respondents perceive it less likely to achieve lower product adaptation costs that are directly related to sales prices. Particularly, Ready Exporters seem to be more concerned that this would make them less competitive in the EC market (F7, Table 2).

Generally, data in Table 2 reveal that exporters in all categories perceive the characteristics of the post-1992 EC Single Market either more favorable or at least as good as the current European market, making this market appear attractive to them. Especially, Preparing Exporters consider this market more favorable than their counterparts in the survey as the composite value of average market condition suggests (Table 2). This may explain their enthusiastic attitude toward getting ready for the EC market by preparing new strategic business plans to compete there more successfully. In contrast, Maintaining Exporters' negative views about the future market conditions may explain their doing-business-as-usual attitude.

Entry Barriers into the EC Market

Entry barriers may be created both by government actions or caused by market-related factors which Porter (1985) refers to as natural barriers. Among the government-imposed barriers in the EC, exporters seem to consider technical standards the most important obstacle (F3, Table 3). This finding tends to confirm the view of the American business community as well as the official government position that the new European harmonization efforts in technical standards may be one of the most problematic areas in the U.S.-EC trade relations (Duesterberg 1992, Hinson 1988). Particularly, Ready and Preparing Firms expect significantly higher technical barriers than Maintaining Exporters. This may explain their high readiness level before it is too late to establish themselves in the EC market.

[Table 3 about here]

Regarding other government-imposed barriers explored in this survey, generally, all exporters expect moderate or little impact on their business (F6, Table 3). However, according to Anova tests, exporters in each of the readiness categories differ from each other significantly on export barriers, local content laws, and reciprocity between the U.S. and the E.C. In all these areas, Maintaining Firms expect to be affected far less than Ready and Preparing Exporters that may explain their lack of preparation for the post-1992 EC market, i.e., as they do predict little impact of trade barriers in the future they may not feel a need for a higher readiness level. Regarding removal of border controls, while Ready and Preparing Exporters foresee a moderate level impact, Maintaining Firms anticipate little effect on their business with EC firms. Similarly, all exporters predict no additional administrative barriers such as red tape in the post-1992 EC market (F10, Table 3). In summary, in contrast to current American concerns and publicized governmental threats to free trade, none of the exporter groups expect major entry barriers to the New Europe imposed by the EC administration.

In respect to market-driven, natural barriers, the apprehension of all exporters appears

to be significantly high. Exporters in each of the readiness categories anticipate a higher number of large EC industrial groups to appear in the market as well as an increase in the efficiency of EC companies (F8, Table 3). This finding is consistent with the observation that the number of mergers and acquisitions in Europe peaked in the past few years (Quelch and Buzzell 1989). Furthermore, both as a result of this tendency and of industrial restructuring initiated by European firms in recent years, it seems reasonable to expect higher efficiency levels of European companies.

In contrast to popular belief, American exporters seem to have realistic expectations about entry barriers in the post-1992 EC Single Market. Particularly, market-driven barriers in the new EC market seem to be of greater concern to American exporters in manufacturing industries than those that are government-imposed.

Competitiveness in the EC Market

Competition, depicted as one of the major components of market attractiveness in Figure 1, has been operationalized in this study through three factors--marketing-related, exporter-related, and government-initiated factors. The fact that 31 percent of the total explained variance of export readiness is accounted for by the competitiveness factor reflects its significance (Appendix). Clearly, this is much higher than the contribution of the other three market attractiveness factors, supporting the importance attached to it by other researchers (Porter 1985, Daems 1990). Data in Table 4 generally support other researchers' expectation of a stiff competition in the post-1992 EC market (Daems 1990, Samiee 1990), i.e., exporters in all readiness categories predict a moderate to highly competitive market environment in the New Europe (Table 4).

[Table 4 about here]

Marketing-related factors focus on a variety of marketing mix components that are predicted by managers and researchers to change after the implementation of the EC '92 program (Delachaux 1990, Quelch and Buzzell 1989). According to data in Table 4 (F1),

higher technological advancements by and cost competition from the EC firms top the list of marketing-related factors that may spur competitiveness of EC firms in the post-1992 EC market. Indeed, this finding supports exporters' expectations of higher market-driven, natural barriers in the future EC market as reported earlier. Other factors such as more overall spending on marketing communications and more powerful EC clients also support other researchers' predictions. While Ready and Preparing Exporters seem to be more concerned about technological advancement introduced by EC firms, Maintaining Exporters report EC firms' cost competition as their major problem (F1, Table 4). Accordingly, while exporters in the former two categories have better prepared for the EC market, Maintaining exporters prefer to continue doing their business as usual with a lower level preparation.

Responses about distribution channels reveal a significant difference among exporter categories, i.e., while Ready and Preparing Exporters predict closer links between EC distributors/agents and manufacturers, Maintaining firms expect realization of such arrangements less likely. Since these arrangements would make competition stiffer and, thus, the EC market less attractive, they may be interpreted as encouraging the first two groups to get ready for the EC market earlier while discouraging the Maintaining Exporters from preparation.

Generally, while two other marketing-related variables--more new products and more harmonized advertising rules--are considered somewhat likely to occur, Preparing Exporters perceive new products causing a stiffer competition. This prediction may be working as an incentive for them to get ready without delay for the future EC market. Furthermore, while Preparing and Maintaining Exporters perceive availability of advertising space and time in the media somewhat likely, Ready Exporters, see this less likely to happen. In other words, Ready Firms expect stiffer competition in the future that may explain their early establishment in the EC market. In summary, exporters seem to expect a more competitive market environment in the post-1992 EC market and several competitive factors increasing the likelihood of natural barriers (F1, Table 4).

Parallel to this finding, all exporters anticipate that EC firms will receive higher protection and subsidies from their governments that would increase the EC firms' competitiveness vis a vis U.S. and other foreign exporters. Indeed, this would help the EC firms to strengthen natural barriers to entry into the post-1992 EC market that supports data reported earlier. As a result, U.S. exporters would view the EC market less attractive (F5, Table 4).

Finally, American exporters generally anticipate increasing their relative competitive posture in the new European market (F4, Table 4). Preparing Exporters in contrast to their counterparts expect significantly higher entry possibilities that seem to motivate them to get ready early in the process. Since Ready Exporters are already established in the EC market (Table 1) they seem to be less concerned about entry possibilities. Not surprisingly, since Maintaining Exporters predict no change in entry possibilities, they seem to continue doing their business-as-usual. In contrast to Maintaining Exporters' status quo attitude, Ready and Preparing Exporters believe that their relative power in the New Europe will be higher. This prediction may boost their own perceived competitiveness and make the EC market appear more attractive to them. Indeed, their high readiness levels reflect this observation.

U.S. Government Assistance

Given the traditional role of the U.S. government in international marketing and exporters' established expectations of the government, it was not surprising to see government assistance appear as a separate factor category of its own in the factor analysis (Appendix and F2, Table 5). However, exporters generally consider U.S. government performance in providing technical assistance as poor in all questioned areas. While Ready Exporters perceive Federal government performance as moderately effective in providing services such as coordination of visits to Europe, providing information on new developments, and monitoring implementation of EC directives, Preparing and Maintaining Exporters report poor effectiveness levels for each of these areas.

[Table 5 about here]

Although there are several established and well-functioning support services designed and delivered by the Federal government about the EC market as explored earlier, findings tend to suggest that the U.S. government is not broadly and uniformly convincing all its constituency groups about its performance. Particularly, the fact that active and committed exporters like Preparing Firms have not been served well with these programs may be considered as a failure of the U.S. government agencies responsible from the EC programs. Two reasons may account for this perception: 1) availability of services, and 2) information dissemination on availability. Since there is a wide variety and depth of information produced and made available by various Federal government agencies, the second reason, namely dissemination of information, seems to be a more likely effectiveness problem.

Regarding R&D support from the U.S. government, it is no surprise that exporters in all readiness categories describe government's R&D support to maintain competitiveness as significantly poor (Table 5). Although R&D support has many industry specific aspects, generally, lack of a national industrial policy and refusal of the administration to provide direct assistance in the past decade may explain this response. As a whole, poorly provided or little government assistance may reduce the competitiveness of smaller exporters and make their view of the post-1992 EC market less attractive.

Discussion and Implications

Smaller U.S. exporters and the U.S. Federal government have originally responded with dismay to the determination of the EC countries to form the Single European Market by the end of 1992. They reacted as if the borders of the EC would be sealed airtight as of the last day of 1992 (Hinson 1988, Thompson 1989). Their concern was probably fueled by large chronic U.S. trade deficits worldwide, although not with Europe. What is more important, U.S. executives were not prepared to compete in an overhauled European market. Surveys conducted in the late 1980s revealed that four out of five business leaders were not aware of Europe's plans to integrate into one single market (Higgins and Santalainen 1989).

Moreover, only 15 percent of U.S. chief executives had plans to deal with the EC in 1992, and an additional 12 percent were developing such plans (Kaikati 1989). Over time, the first panic-like reaction of many U.S. exporters and other companies gave way to a more calculated response (Hauser 1993). The findings of the current study generally reveal that most of the responding smaller American exporters in the manufacturing industries either already have designed and implemented strategic exporting plans or are working on such plans to become stronger competitors in the post-1992 EC market. Furthermore, about one out of every three exporters contend that they are in the process of shifting their exports to the EC market.

The study reveals that while Ready and Maintaining Firms consider the post-1992 EC market moderately competitive, Preparing Firms seem to expect a more competitive environment in Europe. Ready Firms expect, on the one hand, moderate competitiveness and moderately favorable market conditions, and on the other hand slightly higher than moderate entry barriers (Tables 2-4). Indeed, this overall view, and particularly the expected entry barriers, may have been the impetus to complete their strategic export plans early. Noting their historical commitment to continue business relations in Europe would also help to explain their early strategic readiness.

Preparing Firms differentiate themselves from the other exporters by relatively more positive views in all three dimensions of market attractiveness (Tables 2-4). Indeed, anticipation of higher competitiveness and more favorable market conditions may have encouraged their decision to enter the EC market. Contemplating more entry barriers may have played a catalytic role in acting quickly before the completion of the Single European Market.

The case of Maintaining Firms is also illustrative--they do not intend to change doing their business-as-usual approach for they anticipate no significant changes in competitiveness, market characteristics, or entry barriers. It seems, therefore, that the best strategy for these exporters is to "maintain" the status quo. However, in the long term, their inertia may work

against them if they fail to follow current EC market transformations. The threat simply would be that their businesses fail while following their business-as-usual approach.

Therefore, Maintaining exporters should study developments, understand the new competitive structure, and start devising plans, at least to be able to maintain the status quo.

Beyond the aggregate data, it seems that the most attractive feature of the EC for all responding smaller U.S. exporters is related to post-1992 EC market characteristics such as anticipated market growth rate, lower transportation costs and financial services availability to foster business in the EC. Cost- and price-related factors seem to inhibit market attractiveness. Exporters may be advised to closely monitor potential changes in these areas as market conditions evolve in Europe in the near future. Following conceptual predictions of researchers, increases in cost- and price-related factors may cause higher competitiveness levels.

The most important finding from this study is the expectation of exporters that government-imposed legal and regulatory barriers to entry will be much less significant than the market-driven, natural ones in the future. Indeed, this conclusion is important in comparison to the opposite viewpoint asserted by U.S. public policy makers and business executives in some industries.

Expectations of competitiveness reveal that exporters do not seem to be intimidated by marketing-related factors as they report confidence in their own power, better entry possibilities, and lower costs of doing business in Europe. However, their major concern focuses on government-initiated policies such as protection of and subsidy to EC firms. Although these direct subsidies and protection are initiated by the government, they are fundamentally different from the legal and regulatory entry barriers imposed by the EC administration. While legal and regulatory barriers have a bearing on all industries across the market for all exporters targeting the EC, direct subsidies and protection focus on selected industries. Therefore, it has a more direct and irreversible impact on these industries. It helps them build natural, market-driven barriers by distorting market

mechanisms, competitiveness and eventually attractiveness of the EC market for the foreign firms.

These findings have implications both for public policy makers and executives of exporters in manufacturing industries. As American business executives realize the imminent strength of their European competitors, such as technological advances or cost competition, they should initiate strategies of their own to counterbalance such expectations. They may design a new international marketing strategy considering alterations in product, price, distribution and promotion policies. Respondents indicate that there is room for improvement in the cost reduction, pricing, and distribution areas. The initial strategic export plans of respondent exporters should be revised during the continuing process of European market harmonization.

In those areas where government involvement in the EC is distorting competitive market conditions such as protection and subsidy issues, firms should alert both U.S. and EC public policy makers and administration officials to intervene on their behalf. Recently, the U.S. Department of Commerce proposed a multi-step process for smaller firms to get involved directly in the Brussels policy making process and administration. This procedure consists of contacting the U.S. and Foreign Service officers in the EC member state in question, and the U.S. mission for the European Communities in Brussels and ask them to talk to responsible government or EC officials. If these approaches do not work, the U.S. company could take legal action in the member state or eventually take its case to the European Court of Justice (Straetz 1993).

Public policy makers and administration officials, on the other hand, should attempt to diagnose the problems correctly. According to findings of this study, the causes of the European challenge are not the attempts of the EC government to impose barriers such as local content laws, trade reciprocity or public procurement, but rather increasing competitiveness of European firms due to a larger market, more successful technological change, lower costs and other market-related improvements. In other words, the issue does

not center on a trade war with the EC, but on fostering an international business environment in which American exporters in manufacturing industries can grow more competitive globally.

As costs of doing business, in general, and marketing costs, in particular, increase in the EC market, exporters should expect more sensitivity from the U.S. government toward: i) their information needs, 2) coordinating a concerted visitation schedule to Europe, and, perhaps more important, 3) providing R&D support to maintain American competitiveness. This final request translates to asking for a national industrial policy as some industrialized countries in Europe and elsewhere have developed in recent years. However, R&D support by the government has usually not been approached favorably by the Republican Administrations in the U.S. as they consider these type of programs as typical government interventions that need to be phased out (Colborn 1990, Weber 1989). It remains to be seen how the current Democratic Administration would respond demands made by industry.

U.S. public officials may need to review their communication channels with their target constituencies since Preparing and Maintaining firms report that the technical assistance provided by the Federal government agencies in EC related matters is poor. The fact that the administration already has one of the most well-developed information and assistance programs on the EC market unfortunately does not change the complaint of exporters. Such a well-intended and supported program must more effectively reach its target audience.

American exporters' positive attitudes and the fact that the majority of respondents are ready and preparing for the EC market is indeed encouraging. In fact, the overwhelming majority of exporters in this sample suggest that they have already developed strategic export marketing plans to successfully compete in the new Europe. It seems that the era of politically oriented claims of a European threat is already over. It remains to be seen how smaller American exporters in the manufacturing industries and the U.S. government might respond to the European competitive challenge.

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Table 1
Classification of Responding Exporters

Readiness Categories	Ready Exporters	Preparing Exporters	Maintaining Exporters
Strategic Planning Levels	Activated or completed new strategic business plans for the post-1992 market	Currently working on a strategic business plan for the post-1992 market	Have no intention of preparing new strategic plans which will differ from the way they have been doing business in the EC market
Size by Employees	100%	100%	100%
1-25 emp.	10.7	16.7	42.9
26-100	21.4	43.3	33.3
101-200	17.9	23.3	14.3
201-500	50.0	16.7	9.5
Industry	100%	100%	100%
Food	11.1	10.7	9.5
Furniture/Paper Chemicals	18.5	10.7	28.6
Fabricated Metal	33.3	32.1	23.8
Machinery	22.2	17.9	19.0
Miscellaneous	14.8	28.6	19.0
Prior Export Markets	100%	100%	100%
Primarily EC	35.7	17.2	10.0
Other Markets	14.3	62.1	65.0
Equal	50.0	20.7	25.0
Number of Exporters			
n = 79	35%	37%	28%

Table 2
Exporters' Perceptions of
EC Market Characteristics

	All Exporters	Ready Exporters	Preparing Exporters	Maintaining Exporters	F-Tests (p-values)
Market-Related Factors¹ (F9)⁵					
EC market growth rate	3.75 ^{3*}	3.89 ^{3*}	3.80 ^{3*}	3.44 ^{3***}	1.78 (NS)
Banking-insurance services availability in EC	3.70 ^{3*}	3.64 ^{3*}	3.80 ^{3*}	3.63 ^{3*}	.49 (NS)
Cost-Related Factors¹ (F6)					
Cost of EC market info	3.28 ^{3*}	3.30 ^{3**}	3.27 ^{3**}	3.27 ^{3***}	.01 (NS)
EC transportation costs	2.72 ^{3*}	2.70 ^{3**}	2.73 ^{3**}	2.74 ^{3***}	.01 (NS)
Price-Related Factors² (F7)					
Likelihood of lower prices ⁴	2.92	2.74	3.30 ^{3***}	2.60 ^{3**}	3.34 (.04)
Likelihood of lower costs for product adaptation to EC	2.63 [*]	2.33 ^{3*}	2.87	2.68	1.71 (NS)
Average Market Index	3.07	3.01	3.20	2.97	

1) Degree of potential change in the post-1992 EC market: 5 = much higher, 4 = higher, 3 = same, 2 = lower, 1 = much lower

2) Likelihood of potential change: 5 = very likely, 4 = likely, 3 = somewhat likely, 2 = less likely, 1 = not likely at all

3) Significantly different from neutral response = 3. * p<.01. ** p<.05, *** p<.10

4) Responses of exporters in different readiness categories significantly different based on Anova tests

5) See text and appendix for explanation of factor numbers and names.

Table 3
Exporters' Perceptions of
EC Entry Barriers

	All Exporters	Ready Exporters	Preparing Exporters	Maintaining Exporters	F-Tests (p-value)
Government -Imposed Barriers¹ (F3)⁵					
Technical standards ⁴	3.24 ^{3**}	3.59 ^{3,4*}	3.30 ^{3***}	2.61	3.92 (.02)
Export barriers ⁴	2.92	3.15 ⁴	3.20 ⁴	2.11 ³	5.71 (.00)
Local content laws ⁴	2.88	3.33 ^{3,4***}	3.00 ⁴	2.00 ^{3*}	7.79 (.00)
Removal of border controls ⁴	2.68 ^{3*}	2.85	2.90	2.06 ^{3*}	3.30 (.04)
Reciprocity between EC-US ⁴	2.47 ^{3*}	2.67 ^{3,4**}	2.79 ⁴	1.67 ^{3*}	8.87 (.00)
EC public procurement ⁴	2.11 ^{3*}	2.23 ^{3*}	2.36 ^{3,4*}	1.56 ^{3*}	3.89 (.02)
Administrative Barrier (F10)					
Paper work/red tape ²	2.95	2.86	2.87	3.21	.63 (NS)
Market-Driven Barriers² (F8)					
Number of large EC industrial groups	3.83 ^{3*}	3.81 ^{3*}	3.72 ^{3*}	4.00 ^{3*}	1.14 (NS)
Efficiency of EC firms	3.51 ^{3*}	3.36 ^{3**}	3.50 ^{3*}	3.74 ^{3*}	1.32 (NS)
Average Market Barrier	3.14	3.23	3.18	2.95	

- 1) Possible impact on firms in the post-1992 EC market: 5 = very high impact, 4 = high impact, 3 = moderate impact, 2 = little impact, 1 = no impact at all
- 2) Degree of potential change: 5 = much higher, 4 = higher, 3 = same, 2 = lower, 1 = much lower
- 3) Significantly different from neutral response = 3, * p<.01, ** p<.05, *** p<.10
- 4) Significantly different from firms maintaining business based on Anova tests
- 5) See text and appendix for explanation of factor numbers and names

Table 4

**Exporters' Perceptions of
Competitiveness in the EC Market**

	All Exporters	Ready Exporters	Preparing Exporters	Maintaining Exporters	F-Tests (p-value)
Marketing-Related Factors¹ (F1)⁵					
Technological changes by EC firms ²	3.93 ^{3*}	3.85 ^{3*}	4.07 ^{3*}	3.84 ^{3*}	1.07 (NS)
Cost competition from EC firms ²	3.91 ^{3*}	3.78 ^{3**}	3.93 ^{3*}	4.06 ^{3*}	.75 (NS)
More overall spending on marketing communications	3.51 ^{3*}	3.41 ^{3*}	3.67 ^{3*}	3.42 ^{3**}	.67 (NS)
Power of exporters' EC clients ²	3.46 ^{3*}	3.41 ^{3*}	3.50 ^{3*}	3.47 ^{3*}	.15 (NS)
Distribution networks linked with EC firms ⁴	3.31 ^{3*}	3.48 ^{3*}	3.51 ^{3*}	2.80	3.34 (.04)
Number of new product varieties will increase	3.29 ^{3**}	3.07	3.57 ^{3*}	3.16	1.32 (NS)
Ad rules will be more harmonized	2.96	2.89	3.00	3.00	.12 (NS)
More ad time/space will be available in media	2.77 ^{3**}	2.59 ^{3**}	3.00	2.67	1.21 (NS)
Government-Initiated Factors² (F5)					
Protection of EC firms	3.85 ^{3*}	3.88 ^{3*}	3.80 ^{3*}	3.89 ^{3*}	.11 (NS)
Subsidy to EC firms	3.48 ^{3*}	3.54 ^{3*}	3.33 ^{3**}	3.63 ^{3*}	.71 (NS)
Exporter-Related Factors² (F4)					
Entry possibilities into EC market ⁴	3.31 ^{3*}	3.22	3.60 ^{3*}	2.94	2.69 (.07)
Your cost of doing business in EC	3.21 ^{3*}	3.21	3.20	3.22 ^{3***}	.00 (NS)
Your power in EC market	3.18 ^{3**}	3.24 ^{3***}	3.27 ^{3**}	2.95	1.24 (NS)
Average Competitiveness	3.03	2.97	3.11	3.01	

1) Likelihood of potential change: 5 = very likely, 4 = likely, 3 = somewhat likely, 2 = less likely, 1 = not likely at all

2) Degree of potential change in the post-1992 EC market: 5 = much higher, 4 = higher, 3 = same, 2 = lower, 1 = much lower

3) Significantly different from neutral response = 3, * p<.01, ** p<.05, *** p<.10

4) Responses of exporters in different readiness categories significantly different based on Anova tests

5) See text and appendix for explanation of factor numbers and names

Table 5
Exporters' Perceptions of U.S. Government Assistance on
the EC 1992 Program¹

	All Exporters	Ready Exporters	Preparing Exporters	Maintaining Exporters	F-Ratio (p-values)
Technical Assistance (F2)⁴					
Coordinating EC-92 related visits to Europe	2.78 ^{3**}	3.04	2.57 ^{3*}	2.76	1.77 (NS)
Providing information on EC developments	2.76 ^{3*}	3.08 ²	2.60 ^{3**}	2.58 ^{3*}	2.59 (.08)
Monitoring implementation of EC directives	2.76 ^{3*}	2.92	2.69 ^{3**}	2.63 ^{3**}	.84 (NS)
Providing R & D support to maintain competitiveness	2.21 ^{3*}	2.34 ^{3*}	2.17 ^{3*}	2.11 ^{3*}	.53 (NS)

- 1) Degree of effectiveness of assistance: 5 = very effective, 4 = effective, 3 = moderate, 2 = poor, 1 = very poor
- 2) Significantly different from firms that are preparing and maintaining business
- 3) Significantly different from neutral response = 3, * p<.01, ** p<.05, *** p<.10
- 4) See text and appendix for explanation of factor numbers and names

Appendix

Characteristics of Market Attractiveness Factors

Factor Numbers and Names	Eigenvalue	Percent of Variance	Cumulative Percent
I. EC Market Characteristics			12.8
F9 Market-Related Factors	1.16007	3.5	3.5
F6 Cost-Related Factors	1.66438	5.0	8.5
F7 Price-Related Factors	1.41350	4.3	12.8
II. EC Entry Barriers			16.2
F3 Government-Imposed Barriers	3.06518	9.3	9.3
F10 Administrative Barriers	1.06119	3.2	12.5
F8 Market-Driven Barriers	1.20496	3.7	16.2
III. Competitiveness in the EC Market			30.7
F1 Marketing-Related Factors	5.42822	16.4	16.4
F5 Government-Initiated Factors	2.08507	6.3	30.7
F4 Exporter-Related Factors	2.63105	8.0	24.4
IV. Technical Assistance by U.S. Government			12.9
F2 Assistance Components	4.26937	12.9	12.9
Total explained percentage of variance			72.6

Note: In this appendix, results of principal-components analysis are given. Varimax converged in 11 iterations without forcing.