Factors affecting the export destination decision:

The case of the Greek firms’ export activity.

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I hereby declare that the work submitted is mine and that where I have made use of another’s work, I have attributed the source(s) according to the Regulations set in the Student’s Handbook.

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Abstract

This dissertation was written in fulfillment of the requirements of the MSc in Management at the International Hellenic University.

The aim of this study is to examine the aspects of firm export activity and internationalization, which have not been sufficiently explored so far, with a focus on the choice of export destinations. The number of export destinations is considered as an indicator of the export activity complexity. Generally, the export decision has been extensively investigated, but a lot remains to be said about the connection between firm characteristics and a firm’s decision, with regards to the most profitable destinations to serve and their number. Specifically, several aspects of the firm size and the characteristics and the import countries were examined, such as barriers and involved risks, incentives forcing firms to export, theories on which the destination decision is based upon and the general macro-environment of the markets.

In addition to exploring the findings of several studies, Greek export firms and Greek Export Association interviews were conducted. The outcomes of this research enlighten the procedure of export activity and the destination decision. Theoretical findings involved differences between new entrants and continuing exporters, the relationship between exports and efficiency, general trends, barriers and factors affecting the export activity. The findings were further enriched with the Greek exporters view and what applications take place in practice.

Keywords: export activity, export destination decision, factors, Greek firms, barriers, incentives, heterogeneity, learning by exporting, destinations’ preferences, competitive environment

Dimitra Tzekou

31/10/2015
Preface

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Introduction

The dissertation will examine and focus on the main factors affecting a firm’s export destination decisions. The purpose of this research is to identify the most profitable destinations for a firm to export its products in the most sufficient way, taking into consideration several factors affecting that decision, such as the firm as well as the destination country’s macro-level environment.

This topic is of a great importance due to the continuous need of firms to export. This need has increased over the last years due to several factors, such as access to markets. Today, improvements in trade-finance, trade agreements and the Internet have increased access to markets worldwide. There is also a continuing demand and an increase in purchasing power located not only within the borders of a country but also outside of them. Why not for the firms to increase their market share when at the same time some of their competitors do so? Firms of all sizes may benefit from exporting in terms of profitability, increasing sales and creating employment opportunities, in which employees earn more than in the employees of non-exporting firms. Furthermore, exporting enables companies to diversify their portfolios and sources of revenue and endure changes in the domestic economy. Finally, exporting provides the firms with the opportunity of reducing their dependence on the domestic market.

For all the aforementioned reasons, exporting and then the “right” export-destination decision is a very interesting topic to be discussed. It would be quite useful for export firms either as entrants in international markets, or as continuing- exporters to new destinations, to have “guidance” in selecting the most appropriate export destinations and at the same time, eliminating failure risks. For this reason, the export activity of firms and the specific factors that affect the export destination decision, the possible barriers that might occur and the specific firm incentives will be examined in detail.

There are many studies describing and analyzing the factors affecting the export-destination decision, some more briefly and others in depth. In particular, some
of them examined these factors by categorizing the firms according to their export activity either as “continuing exporters”, or as “new entrants” (Katherine N. Schmeister, 2009). Another study focuses on the contribution of three “Key Elements” in Exports: the firms, products and destinations (Amador, Opromolla, 2010). How the efficiency of the firm impacts the destination of exports has also been studied (UNIDO, 2007). Various theories have been developed with regards to the export destination decision, as based on the Heterogeneity of the firms (Cole, Elliott and Virakul, 2010), Self-selection Decisions (Castillejo, Barrachina and Sanchis-Llopis, 2010) and on Learning by Doing (Fernandes, Isgut, 2015). Moreover, many studies (even some of the aforementioned ones) used specific countries as case studies, such as Spain, Italy, Russia and Kenya. These countries vary in many characteristics with regards to their macro- as well as micro- level environment. However, some of the outcomes of these studies have a common base.

In this study a qualitative research methodology is used. The purpose of using this methodology is in order to examine in depth the factors affecting the export-destination decision of the Greek firms. The qualitative methodology aims at establishing a better understanding through first-hand experience, reporting and quotations of actual conversations with Greek export firms. The already existing studies in this field will also be employed as case studies. Moreover, secondary quantitative data, which reveal the existing export destinations of the Greek firms and the product categories that are exported, were used. The study was performed within a two- month period and its participants were Export managers of Greek firms and also the Greek International Business Association (SEVE) which is a non-profit organization and currently the largest association of exporting companies in Greece. The questions resulted from my general study and were based on the context of the current situation

1 Schmeiser K. (2009), Learning to Export: Export Growth and the Destination Decision of Firms, University of Minnesota Department of Economics.
2 Amador J. and Opromolla D. (2010), The margins of exports: Firms, Products and Destinations, Banco de Portugal, Economics and Research Department, pp. 103- 119.
of the Greek economy. In addition, there were differences between the questions posed to Greek export managers and those posed to the Association.
Literature Review

According to several studies, three are the “key Elements” in the exports field. These are the destination decision, involving which is the choice of the most profitable destination, the products that are going to be exported and their characteristics and finally the participation in the process, referring to the entry to and exit from the international markets. The key findings were quite interesting but expressed in different ways and aspects of view, which are going to be analyzed.

“Entrants” and “Continuing” Exporters

In many studies, a difference was pointed out between exporters who enter for first time in international markets and those who continue their export activities in other destinations. They were categorized as “Entrants” and “Continuing” Exporters respectively. A firm as a new exporter initially prefers one destination and then slowly enters more. It is quite often the case for this destination to be a large country, or neighboring markets with characteristics similar to their domestic market. In many studies (Schmeiser, 2009) these destinations are called “Testing grounds”, and constitute the “stepping stone” for new exporters. Only when market penetration becomes successful one of the OECD markets may be chosen, and not vice versa. On the other hand, according to Schmeiser, continuing exporters enter in markets less similar, distant, or less developed. They prefer to constantly enter new destinations and this process seems to be quite challenging for them. As Silvente and Gimenez (2006) claim: “Entering in a new market is a decision as the one of creating a new

5 Similar to 1.
6 Organization for Economic Cooperation and Development. An organization that acts as a meeting ground for 30 countries that believe strongly in the free market system, The OECD provides a forum for discussing issues and reaching agreements, some of which are legally binding. Read more: http://www.oecd.org/about/
The phenomenon of continuing exporters insisting in exporting in existing markets but “enlarging” the range of their products has also been observed.

**Trends**

Trends can be quite important in determining export-destination decisions and many firms take them seriously under consideration. Many studies express a stronger trend, which states that the slower firms increase their export-destinations the fewer are the possibilities of “exiting” from one market. This sounds reasonable because in this way firms understand their product level better and the value of their exporting increases slowly while avoiding the risks that might lead them to “exit”. And as Schmeiser (2009)⁸ has written, there is a common accept of all the export- firms that says: “Initially firms do not respect high profits!” Finally, many firms prefer to enter in unprofitable destinations so as to decrease the fixed entry costs compared to the high fixed costs from a high profitable destination. The reason is that in early stages of exporting the value of entering in a high profitable destination is high but so are the fixed costs. It has also been suggested that in order for a firm to adapt to the last trend, it has to be a continuing exporter already having experience as well as a strong presence in the world trade, otherwise for an entrant medium- sized firm this could definitely pose a risk.

**Efficiency and Exports**

The relationship between efficiency and exports is of great interest, as these two elements can be combined, or one can be the outcome of the other and vice versa. More specifically, according to the study of UNIDO (2007)⁹, the export participation causes efficiency of the firms and efficiency of the firms causes export participation. The outcome of both elements is the destination- decision of exports,

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⁸ Similar to 1.
which is of great value for the firms. It has also been suggested that efficiency in export
decision differs depending on the destination.

**Add and Drop Destinations and Products**

Many exporters seem reluctant in terms of the number of exported products and the number of their export destinations. This concern is very important in determining the success of the export activity. For that reason and based on the research of Silvente and Gimenez (2006): “Almost half of the firms, which are responsible for the 10% of the total exports export initially one product so as to be tested in the new market and avoiding many risks. Also, the majority of the firms export in one destination so as to better understand and apply the whole exportation process. It is essential in both cases to have the knowledge and the knowhow on what existing companies produce and how they operate there. Usually after some years (4-5 years) firms operating in single export-destinations and exporting single products they used to add both destinations and products”.

**Barriers**

Another very important finding in the studies was the various barriers present in exports. Trade barriers are measures that governments and public authorities introduce to make imported products or services less competitive than the ones produced domestically. Barriers affect exports and especially the destination decision. For this reason, it is worth mentioning some of them.

The most important barriers that exporters face are the customs duties and procedures, which the foreign country sets so as to raise state revenue and to protect domestic industries from more efficient competitors from abroad. Another barrier for involves the technical standards and regulations that the foreign country requires in view of protecting its consumers, the environment etc.

Of equal importance for the export firms is to obtain an import license, a document issued by a national government authorizing the importation of certain

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10 Similar to 7.
goods into its territory. The import quota also needs to be considered; a limit on the quantity and categories of products that can be imported into the foreign country in a given period of time\textsuperscript{11}.

There are also barriers present in the internal environment of firms, which affect entry into export markets. As Juan A. Manez- Castillejo (2010)\textsuperscript{12} claims, productivity seems to be a barrier, especially for small firms. According to Castillejo’s study policies it is crucial that these are addressed in order to increase export participation. The means through which this may be achieved involve measures aiming at increasing the firm’s productivity, such as facilitating access to new production technologies and qualified labor force.

\textbf{Factors affecting Export activity}

Among the most important key findings were also the factors that affect the whole process of export activity and the destination decision. The overall competitive environment in the world is one of them, which forces firms to export and at the same time affects the destination decision. The fact that the World consists of non-symmetric export destinations and heterogeneous firms, creates differences in the relationships which characterize the whole world trade. Another important factor involves experience, as it decreases fixed entry costs. As Schmeiser (2009) states: \textit{“A firm that exports continually to a large number of destinations: gains experience in setting up foreign facilities, it can also hire employees who speak a foreign language and gain an advantage of entering in other countries speaking the same language. It also learns the foreign preferences for example advertising in different market areas and finally selects the best shipping methods.”} Experience is not the only important factor, there are also non-exogenous parameters, such as productivity growth and high profits of firms, which work as motives and affect trade and export destinations. Generally, higher sales and profits create a firm’s need of diversification in the market and an increase in the economy of scale (Amador & Opromolla, 2010).

\textsuperscript{12} Similar to 4.
A useful analysis of the factors will occur, where a distinction is made between the firms which export their products and the foreign countries that import them. In most cases the foreign destination is identified by GDP, home bias, market structure, production costs, logistics and transportation costs from the home country, fixed entry costs of entering into that destination, and finally consumer preferences and income. Concerning the home-countries and the research of UNIDO (2007), there are several determinants of firm efficiency and export participation. These are factors that contribute to the export activity by creating firm efficiency and forcing them to penetrate new markets. Firms evaluate these determinants and use them so as to decide which is the most profitable destination to export in. One of those determinants is firm size, which influences manager exportation decisions and affects the greater number of destinations, as usually it is the large companies that take risks. Another factor is the firm age (Older firm> Younger firm). As older firms have experience from past operations, they are characterized by their superior efficiency and cost structure, they are also able to handle better sunk costs related to entry and finally they have established international contacts engaging them in export activities in a more sufficient way. Another factor is the foreign ownership, which provides the firms with significant advantages: the knowhow, the ability to handle the cost to access foreign markets and also access to marketing networks abroad.

By considering the factors related to the types of innovation and investment, it was found that the most innovative firms are more likely to export. More specifically, the product innovation and the organizational-managerial innovation, as Eaton, Kortum & Kramarz (2004)\(^\text{13}\) claimed, show a positive relationship, confirming that the most innovative companies have a higher propensity to export. Moreover, the innovative activity and commitment in R&D are important aspects favoring firms to be more open to markets which are associated with organizational innovations and having the ability to adapt the structure to the new competitive environment.

Summarizing, the key findings obtained are that some of the firm characteristics are significantly associated with both the propensity to export and the number of destinations served. Moreover, it is obvious that the analysis of the factors is a very complex process because an exporter cannot always estimate or predict all the aforementioned. There is always a gap in the initial export plan, due to the constantly unpredicted factors that appear amidst processes and due to the heterogeneity present not only in the firms but also in the whole market. There is an obvious difference compared to past findings, as the phenomenon of exports was not so extended in the past. Firms used to export their products only in neighboring countries and not in very distant countries because it seemed to be very risky. The “unknown” and “poor” technology, the insufficient transportation and the currency were very high barriers to lead firms to enter in distant destinations or even especially to export in undeveloped countries such as the ones in the African market.
Theoretical framework of Export destination decision

There are different schools of thought, expressing opinions affecting firm decision-making regarding export destinations. The two most important “theories” will be examined, describing the Heterogeneity of the firms and the Learning by Exporting process.

**Heterogeneity**

In macro-perspective, Eaton, Kortum, and Kramarz (2004)\(^{14}\) (using the case of France) examined the export activity and highlighted the activity of exporting firms in destination countries. In a micro-economic perspective little has been concluded concerning the relationship between the various dimensions defining a firm’s heterogeneity and the number of destinations served. Generally, heterogeneity is one of the reasons why a firm’s export behavior is difficult to be analyzed and predicted. There is no particular rule and it is adjusted according to the given data at each time.

Bernard and Jensen (1995)\(^{15}\) were the pioneers, who first studied firm internationalization choices and how these are linked to the study of the firm heterogeneity. They tried 25 years ago, to understand the factors that differentiate the internationally involved firms from firms operating in the domestic markets. Their research has taken many theoretical and empirical directions, so as to highlight the heterogeneous features of firms that successfully compete in the international market.

In this framework, the relationships between the characteristics of the firm, such as productivity, size, and research and development (R&D) activity have been examined, and firm choices about internationalization have been deepened. Concluding, exporters have been identified as larger, with a significantly better

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\(^{14}\) Similar to 13.

performance, offering higher wages, and having higher labor productivity as compared to domestic firms (Ferrante and Novelli, 2013)\textsuperscript{16}.

They also followed many studies and detailed surveys of the firm’s heterogeneity and their international market participation. The majority of these studies have examined the export destination decision of firms focusing in developed countries (Girma, Greenaway and Kneller, 2004\textsuperscript{17}) with few looking at the developing country experience (Roberts and Tybout, 1997\textsuperscript{18}). The discrimination in the export destination is obvious, but it also has to be considered that exports are generally perceived to be beneficial to the exporting country. For this reason, it is recognized by all means that all firms export and their decision to enter the export market is determined by a range of factors.

\textit{Learning by Exporting - Gain Experience}

Learning by Exporting is another significant theory on which exports are based. As Arrow (1962, p. 155)\textsuperscript{19} states: \textit{“Learning is “the product of experience,” which can only take place through the attempt to solve a problem and thus only “takes place during activity. This suggests that only firms for which exporting is a challenge would be able to learn from it.”} This would certainly be the case for new exporting firms in developing countries, but it could also apply to smaller firms in developed countries, which try to find foreign customers so as to become more profitable and discriminate from their domestic counterparts. Although, firms having the access in a larger and more competitive market, they have to upgrade their production processes, their

\textsuperscript{16} Ferrante M. and Novelli M. (2013), Heterogeneity and Number of Export Destinations of Italian Firms: A Hurdle Negative Binomial Regression Approach, Global Economy Journal, pp. 391-416.
equipment, and their technical standards, their workers through training and improve quality control and inventory management techniques.

Learning and having experience in exportation benefit the firms in several ways. It decreases fixed entry costs, the firms exporting to large destinations gain the experience of setting up in foreign facilities, they can also hire employees who speak a “foreign” language and gain advantage of entering other countries speaking the same language, they learn from foreign preferences (i.e., advertising) in different areas and finally they select the best shipping methods. It must also be considered that the process of learning depends on the difficulty of the destination market. The question to this is how the learning and the level of development in the markets affects the behaviour of the firms (Clerides et al., 1998\textsuperscript{20}). Juan A. Manez-Castillejo (2010)\textsuperscript{21} answered in this question claiming that: “The returns from exporting should be higher in more difficult markets. If learning by-exporting flows through the transfer of knowledge of new methods of production, inputs and designs from the destination market to the exporters, learning should be more intense in difficult export markets, in which firms surely use superior production methods and sell higher quality products.”

Furthermore, the Learning is associated with the repetition and this will result in a steadily increasing performance. But how useful is the learning by exporting in the old continuing exporters? As it is proven in the study of Fernandez and Isgut (2015) the Learning by Exporting effect is less important for the more established exporters because the old continuing exporters do not learn from exporting as they have already “established” their experience.

Finally, the Learning by Exporting effects does not influence different industries in the same way. For example, the effects in the food industry might be stronger compared to the ones affecting chemical or electrical machinery industry. In the study


of Fernandez and Isgut (2015)\textsuperscript{22} two hypotheses have been suggested in order to explain the differences across industries. According to the results in the first, “\textit{LBE effects may be stronger in industries that export relatively more to high income countries where the demands for product quality, delivery time, and post-sale services are more stringent and the ensuing potential opportunities for learning and productivity enhancement are larger.” In the second hypothesis the study claims that “\textit{LBE effects may be stronger in industries with a higher value of exports if such industries have better-developed channels of distribution and thus their plants face lower barriers to enter into export markets.”

\textsuperscript{22}Fernandes A. and Isgut A. (2015), Learning-by-Exporting Effects: Are They for Real?, Emerging Markets Finance & Trade, DC, USA, pp. 65–89.
Methodology

In this chapter the methodology will describe factors affecting export destination decisions. Questions will be answered, based on the type of methodology, whether it was the most appropriate one for the particular subject and other specific details will be provided.

Qualitative Research through Interviews

The methodology used in this study is based on qualitative research, as well as a combination of primary and secondary data collection through interviews in Greek export firms of all sizes and from the Greek Association, providing information regarding the general export activity. The purpose of the research is to explore the views, the experiences, perceptions, beliefs and motivation of Greek exporters through personal interviews.

Qualitative methods, such as interviews, are believed to provide a “deeper” understanding of social phenomena than would normally be obtained from purely quantitative methods, such as questionnaires. Interviews are, therefore, most appropriate where little is already known about the study phenomenon, or where detailed insights are required from individual participants.

The benefits from using the method of Interviews are that they are completed by the interviewee based exactly on what the respondent says; they have a far more personal form of research than questionnaires. In the personal interview, the interviewee can also work directly with the respondent and has the opportunity to ask follow-up questions. Interviews are generally easier for respondents, especially if what

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is sought are opinions, or impressions. Although, Interviews are time consuming for both parties, they are an intensive resource (Kvaler & Steinar, 1996)\textsuperscript{25}.

The interviews were addressed to export managers from several firms with different sizes and in different sectors. If the method of questionnaire distribution was applied to any possible respondent, the requirements to examine this specific topic in depth would not have been sufficiently met. The sample varied, as four export managers were interviewed in total, two from the industry of Food and Drinks, the other two from Building Chemicals, Construction Materials and Manufacturing Elevator industries.

There was also an Interview with the representative of the Hellenic Association responsible for the Greek exports. The purpose of this interview was to cover, if possible, the general aspect of the other Greek export companies, which are members of the Association. The choice of the sample was made in order for the findings of the study to be easily applied and provide assistance at a wide range of Greek exporting companies.

The study was released within a two month period; it was a very short period given that many of the export managers did not have enough time due to continuous travelling obligations. The Interviews were structured, meaning that the questions were created prior to the interview and respondents had the same series of questions, or almost the same as the ones used during the interview with SEVE. There was generally little room for variation in responses, but a few open-ended questions were also included\textsuperscript{26}. The questions were derived from the literature review and the already existing theoretical background.

Finally, no pilot testing was performed because due to the nature of the qualitative method, it did not seem to be essential. Although, the combination of primary and secondary data, provided by the database of the SEVE was quite useful.

\textsuperscript{25} Kvale and Steinar (1996) Interviews: An Introduction to Qualitative Research Interviewing, \textit{Sage Publications}.

\textsuperscript{26} See Appendix.
Data Analysis

In this chapter, the data provided by the interviewees will be examined analytically. The data analysis will be separated in two parts, one examining the aspect of export managers and the other describing the general trends in Greek exports as they were expressed by SEVE.

Export destination decision and firms

For the study of the export destination decision, export companies were depicted operating in different sectors. All the companies have as a common basis the fact that they are “product” based, meaning that they do not provide services. The export managers were also interviewed about different subject areas that affect their export activity and therefore their destination decision, such as the reasons of exporting, the destinations, the risks and barriers, their experience and their opinion in specific topics.\(^\text{27}\)

Before analyzing the outcomes of the export manager interviews, it is useful to name participants as Interviewee 1 or 2, etc.\(^\text{28}\) as anonymity ensures the objectiveness of collected data. The operating sector is mentioned because the target is to emphasize in the difference of the product and firms and see how these figures affect the whole procedure.

Table 1: Interpretation of Interviewees per Sector

<table>
<thead>
<tr>
<th>Interviewee 1</th>
<th>Building chemicals and mortars company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewee 2</td>
<td>Manufacturing Food company</td>
</tr>
<tr>
<td>Interviewee 3</td>
<td>Industrial and commercial company of automatic Doors Lift</td>
</tr>
<tr>
<td>Interviewee 4</td>
<td>Distributor of Greek Wines and Spirits</td>
</tr>
</tbody>
</table>

\(^{27}\) See Appendix
\(^{28}\) See Table 1
Outcomes interviewing Export managers

Initially, they were asked what prompted their decision to become an exporter and which were the reasons forcing them to enter international trade. They all answered that the basic reasons forcing them to export their products were the need to increase their sales and revenues and brand awareness. Interviewees 3 and 4 talked specifically for the financial crisis and the shrinking of the domestic market. Interviewee 4 claimed that: “It is obvious that companies who want to survive must expand their activities outside of Greek borders.” Interviewees 1 and 2 identified other interesting reasons, such as the challenge of acquiring the know-how of new technologies and continuous development.

As the conversation continued to the existing export destinations, the answers varied according to the sector. Interviewees 1 and 3, who operate in similar industries, export in some common destinations such as Balkans, Eastern Europe and Middle East. On the other side, Interviewees 2 and 4 focus their export activity mainly in areas like Canada, Australia, USA, United Kingdom and Scandinavian countries, where there is Greek presence.

Which was, however, the “first stepping stone” for these companies? Which was the initial market destination for them as new entrants in the international trade? Their responses differ again, except from Interviewees 1 and 3 which preferred neighboring countries, like Balkans and Turkey, due to proximity and the common culture. For both, that attempt was quite successful and they still continue their exports there. Interviewee 4 named USA to be their first stepping stone, due to the nature of the product. He also said: “Americans are open to new ideas and proposals, but also the market there is quite demanding. We tried and we had a positive reaction to our Greek products. And we still cover their demands with our Greek wines.” Although, Interviewee 2 had a more conservative approach regarding the initial market, he claimed that: “It is not accurate to name one destination as attempts are usually made simultaneously; some of them turn out successful and some not so much. Main goal is to always try to enter a new market through trustworthy and organized promotional activities.”
The conversation was then driven to the risks and the barriers that they face in exportation. There were several opinions expressed, which depended on the nature of the product, the country destination, the firm size, the customers targeted and their preferences and etc. Although, all Interviewees said that the most important barrier is Competition either domestic in the exported country or international. Interviewee 1 and 3 talked also about nontariff barriers29 and local legislation according to product variations. Interviewee 1 noted the importance of meeting the Quality Standards of each country destination. Both referred also to Custom-duties and Transportation costs. Interviewee 2 and 4 identify as barriers the Cultural diversity and the dietary habits of consumers.

As many theories support, experience is quite important in export activity, all export managers had the same opinion. For all the companies previous experience was quite useful. Interviewee 3 said that: “It certainly guided us more efficiently, thus resulting in not having to reinvent the wheel”. And Interviewee 2 supported that: “Previous experience, either negative or positive, always helps to be better prepared, having acknowledged possible threats and underlying possibilities”.

Another topic that was discussed during the interviews was the diversification of the products and whether companies change their product depending on the destination’s preferences. All the answers were different based on their sector. Interviewee 1 said that they have diversified their products according to destination preferences and for them the most demanding market is Germany. Interviewee 2, proceeded to labeling and packaging diversification as a result of each country’s legislation especially in countries outside the EU which are very demanding, when the products are exported for the first time. Finally, Interviewee 3 stated that they have also diversified their product more specific in the market of Scandinavia due to very high safety standards.

29 A form of restrictive trade where barriers to trade are set up and take a form other than a tariff. Nontariff barriers include quotas, levies, embargoes, sanctions and other restrictions, and are frequently used by large and developed economies.
Read more: Investopedia http://www.investopedia.com/terms/n/nontariff-barrier

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As already mentioned, competition was one of the reasons that forced all examined firms to export, but it is not clear how easy or difficult it was for them to export in an already competitive environment. This is one of the major concerns of all firms involved in the export activity. Interviewee 1 confirmed this difficulty in exports and also said that this affects their destination decision. However, he continued and said: “For this reason we try to fulfill preconditions and standards of the market, to have better prices and participate in fairs, as part of marketing actions so as to aware possible distributors and wholesalers”. Interviewees 2 and 4, except from the initial difficulty, believe that competition is the most crucial factor to differentiate their products from the others in terms of quality and added value. Interviewee 3 had the same opinion with Interviewees 2 and 4 supporting also that competition turns out to be an advantage for them.

Each effort to export a product is always combined with some fixed costs. How do firms deal with them and which are the essential characteristics of a firm when initially entering a new destination? All Interviewees mentioned as fixed costs market entry costs, the transportation costs and the costs essential for the certificates of products, depending on the destination-market. For example Interviewee 1 stated that Russia requires local certificates for the imported products. Apart from fixed costs in a micro-perspective aspect, firms should display some basic characteristics before they enter in a new market. Interviewee 1 gave us his opinion by naming five most important characteristics-actions required before developing export activity. These are: deciding on the type of products to be exported and the price levels, checking product availability through market research, examining demand flexibility of and market preferences, having adaptability to market standards and preferences and finally having the ability to speak and understand their language ensures that clients feel more familiar and open.

Furthermore, all interviewees were asked concerning the topic of technological efficiency and all mentioned the significance of it, not only in the exports but also in the domestic market. Interviewee 1 emphasized the importance of the continuous technological improvement of the company and he also referred to the company’s
investments in R & D. Talking with Interviewee 2, he clearly stated that: “Technology is a prerequisite for a contemporary and export-oriented company nowadays. Apart from decreasing the production cost, which stimulates the competitiveness, it also contributes in the company’s information processing, as well as facilitates the internal and external communication”.

Additionally, there was a fruitful discussion with all the interviewees concerning the destination markets and their choices. They were specifically asked if as exporters they prefer entering markets that seems to be “unprofitable” destinations, so as to decrease their fixed entry costs, or enter large and profitable destinations with higher fixed costs. The first choice sounds more risky but studies have proven that it might prove more efficient, as firms become more effective over time in these destinations. Both, Interviewees 1 and 2 disagreed with that option and in praxis they do not differentiate their strategy. They used the same for both categories of destinations. Interviewee 2 also commented: “Fixed entry costs should not be a decision-making factor, as the real challenge is the identification of the potential of each market and the opportunity to become a market leader”. However, Interviewee 3 showed his preference in large destinations, he said: “I strongly believe that it is more efficient to enter a market with high fixed costs and enjoy the possibility of profits in the long run. Of course, this requires creating a brand name for yourself (which can also be costly) but ROI’s are much higher and for much longer time”. Interviewee 4 also supported the choice of entering large and profitable markets without taking into consideration the fixed costs, as he said in the sector of wines those markets show interest in this product and high demand of wine consumption, especially the ones who do not have their own production.

Finally, export managers were asked if it is more preferable to create a Subsidiary or a Joint Venture, means of cooperation that enables a firm with higher responsibilities to be more profitable when this cooperation is successful, rather than exporting. The responses varied again according to the nature of businesses if is manufacturing or trade company, the nature of the product and the market (ex. Oligopolistic market). For that reason is worth mentioning the opinion of each one of
the export managers. Interviewee 1 was positive towards the idea of creating a subsidiary, or an affiliate in large and mature markets rather than exporting. He said: “For example in West Europe, where there is high competition, you are obliged to do that. There is always lack of big importers in these countries”. On the other side, Interviewee 2 insisted on the point of view that: “There is not a solid answer to that, as legislation, taxing system and the business environment of each country should be taken into account. Additionally, such decision is also affected by the management style of the company, its size and financial status. The global economical turmoil nowadays mandates that a company should be flexible and easy adjusted, criteria upon which the decision of an alternative to exporting will be based”. Both Interviewee 3 and 4 were negative towards the option of creating an affiliate. As Interviewee 3 said: “In our case a subsidiary or joint venture could not be possible. It would make sense if we would produce locally and not trade. It is an oligopolistic market and therefore establishing a joint venture or subsidiary for trading purposes does not make sense”. Interviewee 4 as export manager of a trade company believes also that this option is more preferable for production companies.

Concluding the analysis of the data provided by export managers, the whole topic of the study could be summarized into one question; which is the most important factor of each company affecting its destination decision? The answers are visualized in the table below.\(^\text{30}\)

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Most important factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Competitiveness</td>
</tr>
<tr>
<td>2</td>
<td>Development Opportunities</td>
</tr>
<tr>
<td>3</td>
<td>Market Structure (Competition &amp; Pricing)</td>
</tr>
<tr>
<td>4</td>
<td>Brand and product awareness</td>
</tr>
</tbody>
</table>

\(^{30}\) See Table 2.
**SEVE**

SEVE is one of the most important Associations in Greece and contributes efficiently in the performance of Greek Exports. It protects and promotes the professional, economic, social and ethical interests of its members. It also promotes Greek products and services in foreign markets and supports the development of international co-operation between Greek enterprises and those of other countries.

The main activities of the Association are to find potential partners and customers (importers, wholesalers, suppliers, etc.) and to provide its members with targeted information on product demand and collaborations from abroad, reliable business information for countries and sectors of interest and information on customer solvency. Furthermore, the Association through its Institute of Export Research & Studies conducts statistical analysis and studies of different countries as potential export destinations and also sectors of interest.

SEVE also promotes increased export participation of Greek firms through specialized educational seminars on export topics such as export marketing, market research, export processes, negotiation techniques etc. The Association boosts the firms through partnerships and networking with international institutions, which promote bilateral relations. It also organizes international events, trade fairs and sectoral meetings, both in Greece and abroad.

**Outcomes interviewing SEVE**

Apart from the main activities, SEVE provided some useful information to this study, concerning the export activity of its members and especially information related with the export destination decision.

Initially, it was given the data concerning the most desirable destination markets in which Greek export firms currently develop their export activity. In the year 2014\(^{31}\), 13.1%\(^{32}\) of Greek firms exported their products to Turkey. Second largest

\(^{31}\) 2015 is yet uncompleted, so it is difficult to have a completed overview.

\(^{32}\) See Figure 1.
export destination is Italy with 9,9% of total share. Following destinations are Germany, Bulgaria and Cyprus with percentages 7,1%, 5,6% and 5,3% respectively\textsuperscript{33}.

Figure 1: Greek export destinations in 2014 (SEVE)

SEVE noticed the significance of the product-sector in the whole procedure of export activity and then in the export destination decision. The most popular sector, is “Mineral fuels, mineral oils, mineral wages” taking up 38,1% of the total share\textsuperscript{34}. The “Aluminium and articles thereof”, follow with lower percentages. “Nuclear reactors, boilers, machinery and mechanical appliances and parts” and “Pharmaceutical Products” take up 4,7%, 3,9% and 3,8% respectively\textsuperscript{35}. As it is obvious, except for the sector of oils and fuels the rest of the market share is divided in small percentages to other sectors.

\textsuperscript{33} See Appendix, Table 3.  
\textsuperscript{34} See Figure 2.  
\textsuperscript{35} See Appendix, Table 4.
As a representative of many Greek firms, SEVE named some of the factors that influence the export destination decision. According to SEVE’s interviewee: “The Greek firms do not focus only on “destination”, other important factors affecting their decision too. Those factors might be the Profit margin, the Proximity from their base (e.g.,: preference in Balkan & Southeast Europe countries) and the Country Risk that the destination might involve.” The possible Opportunities for market share and the Demand, existence of strong “diaspora” community and the transportation costs were also mentioned as factors. Finally, the interviewee focused also on Custom and trade regulations as he said: “Trade with EU countries is very popular because of the loose or nonexistent custom controls and regulations”.

Apart from the factors, SEVE’s representative insisted on mentioning the risks and the possible barriers that need to be considered when selecting the “most profitable” destination-decision. Some of the most common barriers are strong competitiveness, the lack of knowledge, customs barriers and other legal issues. One significant risk according to the representative of SEVE involves the country risk, which
is usually very high in profitable markets. Lastly, he stated: “One important risk that several Greek firms face is the demanded volume of goods. In many cases Greek production cannot cover the desired demand.”

The study also examined the theoretical basis of the destination decision for firms entering international markets, selecting either large and similar destinations, or bordering to them. SEVE insisted that Greek firms definitely select the second choice and the representative clearly stated that: “It is very common for Greek firms to prefer bordering countries or countries belonging to a common trade or economic union, such as European Union/Euro zone. Although a crucial barrier for the approach of these big markets is the limited production capacity of Greek firms and the demand of potential customers”.

Finally, our conversation was driven to the “next” destination decisions of exporters. Whether existing exporters prefer more “complex” destinations was discussed. The interviewee responded: “In the last 5-6 years, regarding the export destinations of Greek firms, it has been noted a diversification. Recession in European market, which was traditionally the most important trade partner for Greece has forced firms to turn their interest to new emerging markets”. According European Union data, in 2010 Greek exports in EU reached 75% comparing to the low percentage of 48% in 2014. For that reason, SEVE’s latest reports showed that firms take the risk of entering or expanding their shares in more demanding and difficult markets, such as USA, Canada, Australia, United Arab Emirates, Japan, China, South Korea and Sub-Saharan African countries.
Discussion of Findings

In this chapter, key findings of the research are going to be presented, along with their level of significance. Whether they are complementary to existing theories and practices, or enrich existing knowledge with new data is discussed, along with the whole exportation process and in our case specifically the export destination decision.

First, the reasons forcing firms to export were examined. Except for the typical reasons mentioned in the existing studies, such as increase of Profits and Brand awareness, another significant reason involves the financial situation in Greece and the feelings of uncertainty derived from operating in an unstable economy. This situation turns companies towards extroverted activities and exports. The same reasons were strongly supported from the representative of SEVE, who also stated that according to latest reports the financial crisis in Greece forces Greek export companies to penetrate more demanding markets outside the European Union such as the Middle East, the Sub-Saharan African countries etc.

Second, important figures were provided concerning their export destinations. It was proved that companies in similar sectors export to similar destinations and they are influenced by the same factors such as Demand (Company 1 and 3) and Greek “diaspora” (Company 2 and 4), as SEVE indicated also. This is obviously related to Demand Theory, which states that countries with similar characteristics (income levels, customer preferences etc.) have similar needs and require similar products in order to satisfy these needs.

Third, the findings concerning the “first” export destination choice from companies were as expected from the relevant theory, the neighboring countries and countries with similar characteristics. The tendency of export companies as new “Entrants” to use those destinations as first “Testing grounds” was also observed. As the SEVE representative also stated, supporting the opinions of export managers, the most important factors especially for the first stepping stone, are proximity, transportation costs and similarity.
Fourth, the risks and the barriers that firms face during the export process varied from theory, due to heterogeneous firms and non-symmetric markets. Except for the non-trading barriers such as local legislation, customs duties and transportation costs, which were mentioned by all interviewees and described in detail in the Literature review, the most important barrier proved to be Competition.

On the other hand, when Interviewees were asked more regarding competition, they all tried to approach it from a positive point of view, facing it as a fulfillment of preconditions and standards and calling it a challenge in order to differentiate and benefit from it. As many studies and the Literature review support, Competition is not only a significant barrier in export activity but also one of the most important factors that affects the export destination decision.

Moreover, the findings based on the experience and the diversification of products was as expected. The experience definitely helps their export activity and is useful for all of them. This is definitely in agreement with all the exports related studies where Experience is referred to as a “Learning by Doing” process and is quite important for companies, because it steadily increases their performance in trade market. Regarding diversification, all export managers claimed that they have diversified their product either in packaging, labeling, standards of Safety and in composition. A fact that is based on the theory of heterogeneity, that supports differences across the countries with regards to customer preferences etc.

Fixed costs proved the same for all interviewees (fixed entry costs, transportation costs, costs for certificates etc.). However, Interviewee 1 presented five ways in which, according to his opinion, companies can minimize fixed costs. Fixed costs are inevitable according to several studies and many of them have even analyzed tactics so as to handle them in the most sufficient way. The best tactic of all is to somehow reduce fixed costs by creating a well-organized business plan addressing several aspects affecting export activities such as pricing considerations, foreign market demands, costs, competition, quotations and proforma invoices and terms of sales.
Technological efficiency was mentioned by all interviewees as very important, not only with regards to exports but also in terms of trading inside their country. It has been shown that Technology allows companies to expand quickly and efficiently, to improve their existing products and target a wider customer base leading to higher levels of sales.

Another finding involved the choice of destination markets, divided into “unprofitable” and under-development destinations and large and profitable markets. Contrary to the theory, almost all interviewees supported the large markets without taking into consideration the fixed entry costs. More specifically, Interviewee 1 and 2 argued that there is no discrimination in the markets for them. However, there are many studies which disagree with that option. These studies insist on the discrimination of the markets and as it is also stated clearly in Schmeiser’s study (2009): “Many firms enter an unprofitable destination in order to decrease fixed entry cost and become more efficient over time for a highly profitable destination”.

Finally, in the last question concerning the possibility of creating a Subsidiary and a Joint Venture or keep exporting only, the findings again varied as expected, verifying the theory that supports the heterogeneity of the firms and all policies developed from them.
Theoretical and Managerial Implications

At the theoretical level, the study contributes to the already existing knowledge in the area of export activity, as it was expressed by Amador and Opromolla (2010), Bernard and Jensen (1995), Branch (2006), Clerides, Lach and Tybout (1998). It is a relatively new field of research emerging from several studies, and more specifically of a destination decision. It particularly highlights a set of factors that are critical in decisions involving, which is the most profitable destination for exports. The previous studies focused their interest in other topics related to export activity such as firm’s heterogeneity (Cole, Elliot and Virakul, 2010), margin of exports like firms, products and destinations (Amador and Opromolla, 2010), learning by exporting effects (Fernandes and Isgut, 2015), trade and growth (Baliamoune-Lutz, 2011) etc.

The findings, based in the overall theoretical framework were expected. Exceptions were found in some cases through the conversations with export managers coming from the economic situation of the home country, Greece. In general, these findings are important because they prepare companies competing internationally and could prove useful for all sizes of enterprises as they inform them about export activities tendencies, which could be used as a guide for future products export to the most profitable destinations.

At the managerial level, the findings inform potential and already established exporters on the best practices to be followed in exporting their products, key issues to consider, what managerial style to adapt etc. This is particularly important given the high competition in International trade and the continuous Shrinking of the domestic markets that export companies are confronted with - especially the ones in their initial stages of export, which also face the risks of a possible failure of an “unprofitable” market destination. Providing all the factors that may contribute to a successful export activity might be the cure for the -almost global and more specific in Greece - economic crisis. The findings of this study might prove beneficial in shifting export companies towards the right direction.
Conclusion

In this study factors affecting the export destination decision of Greek firms have been analyzed, along with the theories and relevant determinants that influence the decision making process. As far as the export activity is concerned, different strategies and factors affecting it, were examined. The strategies and the elements mentioned were supported by the literature review and relevant theories of Heterogeneity and Learning by exporting. The methodology through which all the data were collected was described, in order to be analyzed in the next chapter.

The purpose of this study was to contribute to the already existing knowledge and to provide process advancement in the area of exports. The analysis allowed identifying basic elements as important factors that need to be considered in choosing an export destination as expressed by export managers and the Export Association. The clear objective was to guide and direct any existing, or potential export company towards the most appropriate export destination and eliminate, if possible, the involved risks and failures. More specifically, the factors that have to be highlighted and considered by the firms in their destination decisions are:

- The Internal Growth and the Efficiency of a Firm (profits, high productivity etc.)
- The duration of exporting (Entrants or Continuing exporters)
- The relationship between firms, products and destinations.
- The general Competitive environment.
- The Non- symmetric destination markets and the Heterogeneity of the firms.
- The quantity and the quality of the products.
- The Barriers, which are determined by the imported countries.
- Technological improvements and innovative products.
- The experience gained.
And finally, Trends. Like the one Schmeiser proposes: “Stable steps in a new market, could prevent the exit from the market and gain more easily the customer’s loyalty”.

Limitations

During the process of the research and findings analysis several limitations arose, that need to also be considered.

The first limitation involved the fact that a small sample was used and thus the results cannot represent 100% of Greek firms export activity and their destination decisions. All the interviewed companies were from different sectors so as to establish a good level of diversity in the results. It should also be mentioned, that more export managers were approached but the responses were few; mainly due to fact that the period during which the survey was conducted was particularly short, quite busy and many of the export managers were absent from Greece during it.

Another significant limitation is that it is not possible to provide “fixed” factors for the destination decisions due to continuous technological advancements. Technology constantly changes. For example, to export nowadays in Sub-Saharan Africa might currently pose a challenge even for large and high competitive firms but in the future these destinations might be included in the export- strategy of even smaller companies. Another problem which has been revealed and analysed above was the heterogeneity of the firms and the general macro-environment. This is the most important factor affecting the whole export process, which differs from firm to firm and from country to country. Heterogeneity prevents us from precisely predicting the best export destinations.

Finally, the general stability (or lack of) in the markets due to political and economical factors affects radically any decision and factor.
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Schmeiser K. (2009), Learning to Export: Export Growth and the Destination Decision of Firms, University of Minnesota Department of Economics.


### Appendix

#### Greek exports per country, 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>Value in Euro</th>
<th>Share 14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>3,277,384,441</td>
<td>13,1%</td>
</tr>
<tr>
<td>Italy</td>
<td>2,488,415,303</td>
<td>9,9%</td>
</tr>
<tr>
<td>Germany</td>
<td>1,788,294,463</td>
<td>7,1%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1,399,910,698</td>
<td>5,6%</td>
</tr>
<tr>
<td>Cyprus</td>
<td>1,325,472,222</td>
<td>5,3%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>976,401,292</td>
<td>3,9%</td>
</tr>
<tr>
<td>USA</td>
<td>821,165,984</td>
<td>3,3%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>785,219,834</td>
<td>3,1%</td>
</tr>
<tr>
<td>Egypt</td>
<td>755,562,760</td>
<td>3,0%</td>
</tr>
<tr>
<td>FYROM</td>
<td>707,156,658</td>
<td>2,8%</td>
</tr>
<tr>
<td>Spain</td>
<td>672,664,830</td>
<td>2,7%</td>
</tr>
<tr>
<td>France</td>
<td>648,715,448</td>
<td>2,6%</td>
</tr>
<tr>
<td>Romania</td>
<td>647,059,547</td>
<td>2,6%</td>
</tr>
<tr>
<td>Libanon</td>
<td>613,376,995</td>
<td>2,5%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>420,934,475</td>
<td>1,7%</td>
</tr>
</tbody>
</table>

Table 3: Greek exports per Country, 2014

#### Greek exports per sector, 2014

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value in Euro</th>
<th>Share 14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral fuels, mineral oils, mineral waxes</td>
<td>10,363,000,025</td>
<td>38,1%</td>
</tr>
<tr>
<td>Aluminium and articles thereof</td>
<td>1,288,110,387</td>
<td>4,7%</td>
</tr>
<tr>
<td>Nuclear reactors, boilers, machinery and mechanical appliances and parts</td>
<td>1,071,384,616</td>
<td>3,9%</td>
</tr>
<tr>
<td>Pharmaceutical products</td>
<td>1,043,222,836</td>
<td>3,8%</td>
</tr>
<tr>
<td>Plastics and articles</td>
<td>997,310,782</td>
<td>3,7%</td>
</tr>
<tr>
<td>Electrical machinery and equipment and their parts</td>
<td>930,910,422</td>
<td>3,4%</td>
</tr>
<tr>
<td>Preperations of veftables, fruit and nuts</td>
<td>891,496,223</td>
<td>3,3%</td>
</tr>
<tr>
<td>Edible fruit and nuts</td>
<td>833,901,213</td>
<td>3,1%</td>
</tr>
<tr>
<td>Fish and crustaceans, molluses and other aquatic invertebrates</td>
<td>548,134,251</td>
<td>2,0%</td>
</tr>
</tbody>
</table>

Table 4: Greek exports per Sector, 2014
QUESTIONS

Addressed to Greek Export Firms:

1. Q: What forces the firms to export its products? Is it the challenge of expansion? Is it the need of increasing your profits? Increase the prestige of your firm? Or there is another reason. Please identify the reasons that force you to enter in international trade. What prompts the decision to become an exporter?
   i) ............
   ii) ............
   iii) ............

2. Q: Name some of the destinations where you develop your export activity?
   i) ........
   ii) ........
   iii) ........
   iv) ........
   v) ........

3. Q: As a New entrant in the international markets, which was your first stepping stone, the initial market- destination that you enter? And why you thought it was the most suitable choice? Was it a successful attempt?

4. Q: Identify some of the barriers and risks you meet when entering in a new destination.
   i. ........
   ii. ........
   iii. ........
   iv. ........
   v. ........

5. Q: Was your previous experience useful for the choice of an export- destination?
6. Q: If you have to decide, which is the most important factor for your export-destination decision? (Name only one)

7. Q: Have you diversified your product according to the destinations’ preferences? If yes, which market is more demanding?

8. Q: How easy or difficult is to export in an already competitive environment and is this a factor of affecting destination decision and in which way?

9. Q: Which are the fixed costs and the essential characteristics of a firm when initially enters in one new destination? How they affect your final destination decision?
   i. ........
   ii. ........
   iii. ........
   iv. ........
   v. ........

10. Q: Is Firm’s technological efficiency required when especially entering in industrialized countries and less demanding in developing markets? What is your opinion? How important is also for a firm to be technologically advanced especially in nowadays (North technology is high)?

11. Q: As an exporter do you prefer entering in markets that seems to be “unprofitable” destinations so as to decrease your fixed entry costs or enter in large and profitable destinations with high fixed costs? The first choice sounds more risky but studies have proven that might be more efficient, they claim that firms become more effective over time in these destinations. How do you find this option? In praxis what strategy you adapt in your exports?

12. Q: Is it more preferable to create a Subsidiary or a Joint Venture (those means of cooperation that enable your firm with higher responsibilities but make it more profitable when this cooperation is successful) rather than exporting? And in which kind of destination this would be more successful as an attempt?
Addressed to SEVE:

1. What is the contribution of SEVE in Greek exportation? Which are your main activities?

2. Name the TOP 15 destinations that the Greek firms export their products?

3. Which are the most popular product-sectors in exports? Please name five sectors.
   i. ........
   ii. ........
   iii. ........
   iv. ........
   v. ........

4. Do the Greek firms focus mainly on “destination”? Or they are concerned from other factors, such as profits, products to exports etc. Please identify some of the reasons.

5. In your opinion, which are the risks and the barriers for selecting the most profitable destination-decision?
   i. ........
   ii. ........
   iii. ........
   iv. ........
   v. ........

6. Firms when entering for the first time in international market prefer very large destination-countries and similar or bordering to them? What is your opinion?

7. Does existing exporters enter to more “complex” destinations? And which is the most “demanding” market?