EXPORT BARRIERS IN LATIN AMERICA ACCORDING TO CZECH COMPANIES

Barbora Kaprálová

Abstract: *This article presents the results of research on export barriers encountered by Czech companies in Latin America. This research focuses on the praxis and shows where do some Czech companies see problems in exporting to this specific region but it also puts these findings in context by including a testimony of other actors participating in export as well as author´s own observation from private sector export consultancy, economic sections of embassies and the foreign office of export promoting agency CzechTrade. This research shows that cultural differences and lack of qualified staff is as significant of a barrier as protectionism and bureaucracy in the target country. Surprisingly barriers such as logistic complications, lack of capital etc. did not show to be crucial for interviewed exporters. Furthermore the results of this paper show that the perception of the importance of certain barriers as well as the ability of the firm to overcome them profitably is highly connected to the mental model of the export manager responsible. The main aim of this research was to contribute to the discussion about territorial export diversification and to find out the reasons behind the relative passivity of Czech exporters in the region of Latin America.*

Keywords: *Export, Export barriers, Czech exporters, Latin American markets, Export management*

JEL Classification: *F10, F14, R10.*

Introduction

Export is generally considered one of the least risky forms of international involvement of a company, mostly because it does not necessarily demand resources as significant as for example joint ventures or other types of overseas involvement. (Porto, 2005: 68) As an open economic, Czech Republic is historically focused on export of goods mainly with higher added value and traditionally in the field of engineering or luxury products. Even though in recent years there has been a development in the so needed product diversification, the territorial structure stays dangerously stagnant. Over 80 percent of Czech export of both goods and services goes to one of the 28 countries of the EU and from this amount over 30 percent to Germany.[1] South America, Central America and the Caribbean together absorb only around one percent of Czech export.[2] The focus of Czech companies on European Union is understandable, the absence of formal barriers, long history of mutual business and political relations and geographical proximity are factors that help reduce costs of entering foreign markets and maintaining business operations. (Korneliussen, Blasius, 2008: 217-218) On the other hand finding new markets outside the EU can be crucial for the company´s expansion, especially if the product is highly specific and therefore needs a bigger market. Another reason is that even in globalized world some economies are more sensitive to each other´s development and an economic or political crisis in one will presumably affect the other. The 2009 economic crisis, which affected Czech exporters via

[1] Czech export to European Union was 83 percent and 82,2 respectively in 2015 and 2014 (January to August) and from this part 32,3 percent and 32,1 percent respectively again was to Germany. (Zahraniční obchod 1-8/2015, MPO)
[2] According to own analysis of data provided by Czech Statistical Office.

affecting their most valuable destinations, became a strong argument for creating new strategies ensuring that a potential future drop-out of one partner will not negatively influence the whole Czech economy. Latin America can be an important partner for Czech companies looking to expand to less traditional markets as well as for firms looking to secure their income via diversification. The reason for that might be that economic and political developments are not as interconnected between Latin America and Europe/Czech Republic as they are for example between Europe and the Middle East, which is often argued to be a good option for territorial diversification of Czech export. This paper aims to investigate the reasons behind the relative passivity of Czech exporters in Latin America by focusing on the barriers encountered by Czech companies exporting to Latin America as well as the perception of export barriers of individual managers via conducting in-depth interviews as well as taking into account the context of this perception via personal observation and observation of other actors in export activities.

1 Statement of a problem

There is a broad body of literature focusing on export barriers, among the most cited authors are Robert E. Morgan and Constantine S. Katsikeas (Katsikeas, Morgan 1994; Morgan, Katsikeas 1998; Morgan 1997), Leonidas C. Leonidou (Leonidou 1995a; 1995b) or Peter Yannopoulos (Yannopoulos 2010). Those studies usually focus on the topic from a quantitative point of view, with the sample of hundreds of companies. This approach makes these studies appropriate for further use and easier generalization. However, the wide sample of companies without territorial or field specification and the strict focuson quantifiable variables, however understandable, can also be limiting to deeper and specific understanding of the problem.

Majority of existing research focuses on developed countries, predominantly on Europe and North America therefore it is important to take into account also authors focusing on topics such as the connection between poverty and export barriers (Porto 2005) or the export in developing countries (for example da Silva, da Rocha 2001; Tesfom, Lutz 2006; Ahmed, Julian, Mahajar 2008; Özkanli, Benek, Akdeve 2006). When it comes to overcoming export barriers, an extensive body of literature focuses on the efficiency and role of governmental export promotion and assistance (for example Czinkota 1982; Seringhaus 1986; Seringhaus 1987; Seringhaus, Rosson 1990) with one of the most complex empirical study completed by Volpe Martincus, Estevadeordal, Gallo et al. (2010).

1.1 Concept of export barriers

The literature views barriers to export as “all those attitudinal, structural, operational, and other constrains that hinder the firm´s ability to initiate, develop, or sustain international operations”. (Leonidou, 1995a: 31)

Part of authors divides export barriers as external and internal. Internal export problems stem from inside the company and are connected to limited resources - financial or organizational. Generally they are associated with the company or product characteristics. (Köksal, Kettaneh, 2011: 109) These problems tend to be important for both exporters and non-exporters (companies not currently exporting to a target country but with a potential and/or plan to do so). (Gashti, Rad, Fard et al., 2013: 1873) For example difficulties in obtaining information about export market could be a crucial barrier for both exporters and non-exporters. (Vila López, 2013: 265, 270-271; da Silva, da Rocha, 2001) External barriers on the other hand stem from outside the company, from its environment. Another typology used widely in literature is the domestic/foreign one. Domestic barriers in this case are affecting the exporter from his base country, whilst foreign problems can be found in the target destination. A more synoptic approach is to combine those two typologies and use four categories – i.e. internal-domestic (problems, which stems from within the company and are relevant for the base country environment), external-domestic (barriers arising from the base country environment, beyond the control of the firm), internal-foreign (internal limits of the company complicating overcoming the problems in target country) and external-foreign (barriers in the target country, beyond control of the exporter). (Leonidou, 1995b: 18-19)

It is important to stress that none of these barriers inhibit the firm from export activities by themselves and the perception of their importance depends on other factors, the essential one being the quality and attitude of management, but also the size of the company or its previous export experience. (Leonidou, 1995a: 32; Volpe Martincus, Estevadeordal, Gallo et al., 2010: 139) The ability of management to obtain relevant information and to pay attention to marketing research activities correlates with higher export activity according to Morgan and Katsikeas. (Morgan, Katsikeas, 1998: 163-164) These two authors are stressing the role of good quality management in export strategy of the company by for example stating, that by the lack of educated, well informed, experienced and proactive management companies are putting themselves in danger of insufficient inputs to create a marketing strategy. For such strategy the ability to create a stable communication with potential partners, obtain information about foreign market and have experienced staff, educated about the distribution channels and other relevant factors is of course crucial. (Morgan, 1997: 164)

2 Methods

This qualitative research was conducted in a form of an in-depth semi-structured interviews with companies exporting (or in few cases intending to export) to Latin America, these interviews were linked with direct observation of author when working as an intern for the economic section of the Czech embassy in Lima, foreign office of CzechTrade in Santiago de Chile and completing a Latin American export project for a Czech company (2014-2015). The list of companies to address with the entreaty to participate in the research was put together by means of references from the employees of embassies, as well as searching for companies mentioned in press in context of export to Latin America. After reducing the list to the most relevant firms, total of 110 companies were sent an email with a description of the research and an entreaty for a personal interview. Eventually 27 interviews were conducted. This gives a response rate of 24,5 percent which is roughly analogous to response rates of similar studies in literature, the rate would be higher if companies who do not participate in export activities in Latin America anymore or export through other company (agent or a group member) were excluded, which did not happen in this case. One company was later excluded from the results due to the fact that it was the only company exporting services, for a better coherence only the 26 goods exporting companies formed the results of this research.

In the sense of the size of the companies 10 companies were large, 9 middle sized and 7 small. All of the interviewed firms had some export experiences but the level and depth varied. Also the fields of their activity varied from Food industry, Defence and Arms industry, Engineering, Bio-chemical products to Glass industry or Medical instruments etc. In this sense it is necessary to acknowledge in some cases that the perception of some barriers or export activities in general is field-sensitive as state for example Smith, Gregoire and Lu in their work. (Sousa, Bradley, 2006: 54-55) In-depth semi-structured interviews allow better understanding of specific approach of a company and helps understanding that some barriers are more or less pronounced for specific industries. The same applies to different countries in Latin America that companies are exporting to. Except of two cases, all interviews were conducted with only one representative of the company. In general this might lead to a misrepresentation, since one person´s testimony might be incomplete or distorted in other way. However, in the Czech case, even bigger companies do not commonly have a Latin American section larger than one or two employees. In many cases the export manager also focuses on other regions as well. Therefore all the interviews used in this research were conducted with the most relevant person in the company, usually in a position of export/business development manager or similar, where in only one company was the Latin American section not only separate, but also split in the Spanish- and Portuguese-speaking sub-sections, with two leading managers (both participated in the interview).

3 Problem solving and discussion

After an analysis of all the interviews a complete list of 19 barriers was made. Only barriers actually mentioned by the respondents themselves (without suggesting them by author) were taken into an account, therefore not all generally suggested barriers were included (for example disadvantageous exchange rates, etc.). Found barriers were categorized by the Internal/External and Domestic/Foreign typology. Table 1 shows the four categories with individual barriers.

Tab. 1: List of perceived barriers

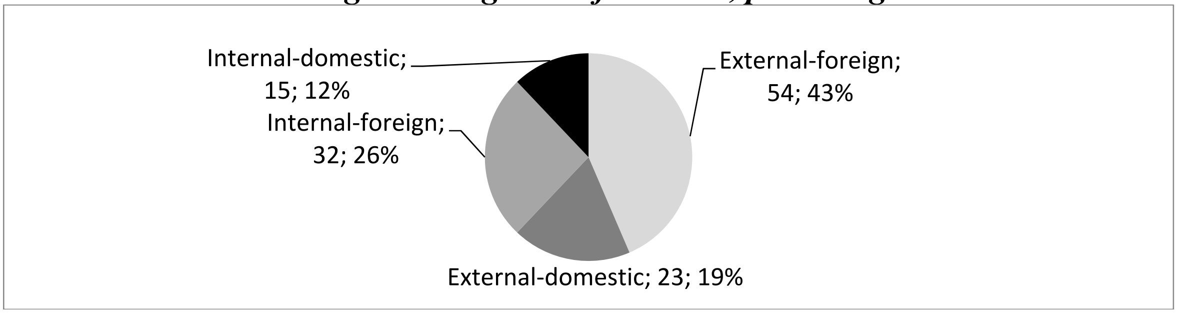
Internal-domestic	Qualification/adequacy of staff	External-domestic	Bureaucracy in the base country
	Production capacity		Unqualified/inadequate staff at embassies/governmental agencies
	Lack of managerial time		Not optimal governmental support with financing/insurance of export
	Lack of capital		Limited info about foreign markets
Internal-foreign	Technical limits of product (standards, certificates	External-foreign	Different foreign consumer habits/attitudes
	Difficult/slow collection of payments from abroad		Protectionism (tariff/non-tariff barriers)
	Difficult to obtain local distributors/partners		Keen competition
	Logistics (problematic transport, shipping costs)		Socio-economic or political instability
	Cultural differences		Corruption
			Bureaucracy at the target country

Source: Own

3.1 Internal-domestic barriers

As is evident from Table 2 and Figure 1, which presents the results of the research, the least problematic for the exporters seem to be the barriers categorized as internal-domestic. The lack of capital being a factor that only one company (small, relatively new company) perceived as a serious barrier. This might be slightly surprising considering that almost two thirds of the companies participating were small or middle sized, without extensive financial resources, which according to other researchers puts them in a bigger danger of encountering more export barriers. (Katsikeas, Morgan, 1994: 27) The reason might be that interviewed exporters do not perceive this as something specific when operating in Latin America and even though most of the managers mentioned the necessity to invest more resources when entering Latin American market than for example an European one, in comparison to other non-European markets, this is not perceived as profoundly different.

Fig. 1: Categories of barriers, percentage



Source: Own
Percentage of total number of mentioned barriers.

Production capacity was indicated as a barrier in two cases, both of them were firms with highly specific products for expert use and in both cases it was given more as an explanation for the actual relative passivity of the exporter in Latin American region, i.e. the active approach to export activities in this region will return when the company expands.

Lack of managerial time was indicated three times, but in context of author´s experience, confirmed by interviews with economic diplomats and CzechTrade employees, this factor is indeed a barrier very often without the company realizing its impact. As was mentioned above even in large companies the Latin American section usually shares staff with other export regions, very often more traditional and creating more revenue for the company. These other regions then understandably have more managerial attention, which subsequently leads to less resources and time spent on Latin America. Insufficient activity on Latin American market is then directly connected to less revenue from this region, which gives the company the rational reason to focus less on it - a go by book vicious circle.

Almost an exact third of respondents sees a problem in the lack of qualified staff. In this sense two factors were noticeable in this research. For several active and economically successful companies (meaning export success in Latin America) it seemed complicated to find more qualified managers or other staff members to expand their activities. The operations of Czech companies in Latin America are small in the sense of personnel, therefore a qualified employee must not only meet language requirements, ideally have a regional experience, personal and sales abilities corresponding with the environment but in many cases also professional knowledge of the specific field.

The other factor is that in several companies which did not mention lack of qualified staff as a problem a deeper interview uncovered that for example a lack of knowledge of very basic information about the region and/or a language incompetency caused that the concerns of the company were misplaced. For example several companies without a Spanish/Portuguese speaking manager informed about the region, believed their lack of success in Latin America was caused by cultural differences (i.e. culturally determined unreliable personality of business partners), a deeper interview uncovered, that this Beverage industry company is talking about their activities in Venezuela and that the manager does not have a basic knowledge of the current economic and political situation in the country and decided to try to enter this market nevertheless.

3.2 External-domestic barriers

Bureaucracy on the side of exporter´s country can be a problem, even in a country oriented on export (Morgan, 1997: 164) as the Czech Republic surely is. It is a barrier that is field-sensitive. In most cases European certificates and permits are sufficient for Latin American importers, therefore no additional certification is needed on the side of exporter in order to export to Latin America. In some cases in Food industry and Medicinal/Pharmaceutical products additional certification on the Czech side was needed, mostly for exports to Venezuela and Brazil. This was perceived as a barrier because in some cases it was problematic to obtain certificates in Spanish and in several cases the products of the company were innovated very often which created the need to obtain new certification. This barrier was not perceived as more complicated than in cases of other non-European regions.

The most frequently mentioned problem in this category was that the employees of the embassies and government agency CzechTrade did not have an adequate qualification. Seven respondents had a negative opinion about the qualification and/or adequate capacity of diplomats and other staff. In most cases this was seen as a problem in two ways, first often mentioned opinion was that diplomats at the economic sections of embassies lack a business experience from a private sector, therefore their assistance is limited in its efficiency, and second was that the employees of CzechTrade have their services subject to a charge. Results about the perception of governmental assistance to exporters is corresponding with the results of Volpe Martincus, Estevadeordal, Gallo et al., who concluded that this tool is more likely to promote export of goods with less severe intensity in the specific skills required to understand the product. (Moini, 1997: 110)

Another confusion seems to be prevalent when it comes to official information about foreign markets. Server BusinessInfo.cz, which provides general and in some cases detailed information provided by the embassies, CzechTrade and relevant ministries and offices was unknown to a large portion of interviewed exporters and in some cases the information on the website itself was outdated and misleading. Several exporters stated that they would be more interested in a field-specific information and for some managers (mostly younger companies) the information sources were too fragmented and they did not have a clear idea whether to follow the website of Ministry of Industry and Trade, Ministry of Foreign Affairs, International Chamber of Commerce or BusinessInfo.cz.

Five exporters mentioned problems with the governmental support with financing/insurance of export not being optional. These companies stated that in cases that they are not able to reach the government support in insuring their export activities, this creates a significant increase in risk volume.

3.3 Internal-foreign

Several barriers generally perceived as serious in literature were not mentioned by many interviewed exporters. For example getting payments from abroad was a problem for only four companies in contrast to this being a more important issue in other studies (Morgan, Katsiekas, 1998: 79). Technical problems were mentioned by only two companies, both with electrical appliances, where adaptation to a different standard was needed for some Latin American countries, but both companies have experience with non-European regions and are used to adapt their products, therefore it was not perceived as a serious issue.

Obtaining a local distributor or partner is a problem for five companies, both experienced exporters and non-exporters.

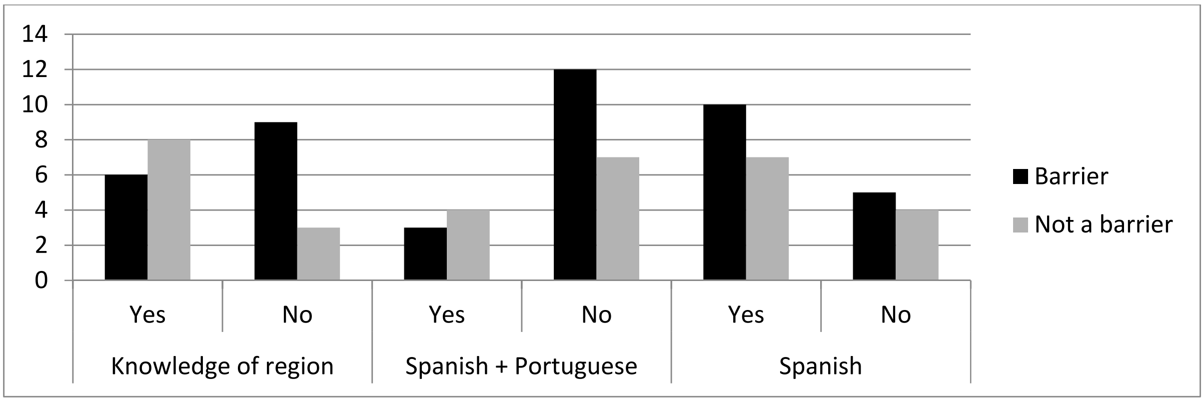
Logistics interestingly is not perceived as a barrier by vast majority of companies, only six firms stated it as a problem. This might be surprising because of a large distance and in many cases insufficient infrastructure in the target country. Yet majority of the interviewed firms sees this obvious disadvantage as something that is easily overcome with profitability and in many cases this is again connected to the company having experience with other geographically distant regions.

The most mentioned barrier hindering export to Latin America for Czech companies were Cultural differences and Bureaucracy at the target country, with both factors being indicated by the same number of respondents i.e. 15 companies, which is 57,7% of respondents. In connection to Latin America (and to other non-European regions, for that matter) it is important to include the barrier of cultural differences which is focused on the target country but ability or inability to overcome it stems from inside the company, and it includes a wide group of factors (for example language, lifestyle, cultural standards, consumer preferences or purchase power). (Morgan, Katsikeas, 1998: 78) The concept of cultural distance, or "the degree to which cultural values in one country are different from those in another country" (Tesfom, Lutz, 2006: 52) is widely used to explain a variety of situations in export activities of a company, from the market entry mode, control over export channels, firms performance abroad etc.

When this barrier was indicated exporters were asked how they perceive the importance of this barrier and the specific attitude towards it varied highly. In this case more in-depth interview was conducted. The most mentioned aspects of cultural differences were the necessity to speak a foreign language (Spanish or/and Portuguese), the need to create a long-term personal relations with the partners/clients and the differences in business communication Total of 10 managers of this group speak Spanish and two more speak Portuguese as well. In addition in 6 of these 10 companies, the manager had a knowledge and previous deeper experience with the region - in four cases the manager lived in Latin America longer than 6 months and in two cases they were born and/or raised in the region. In all the cases in which managers speak Spanish (and Portuguese), the interview revealed that cultural differences are a factor that a company needs to take into an account, but it is not a completely limiting factor. The fact that big part of these companies has a management qualified in sense of language and regional knowledge can explain why after a more profound interview 11 of these 15 companies stated that cultural differences are more of a challenge than a barrier, this including one company that does not have a Spanish/Portuguese speaker nor a manager with Latin American experience.

Figure 2 shows a summary of how many companies does or does not have a management with certain qualification and how many of both groups perceive cultural differences as a barrier. More managers without the knowledge of the region and without the ability to speak both Portuguese and Spanish perceive cultural differences as a barrier. Spanish speaking managers on the other hand do not seem to be a factor eliminating the cultural differences as a barrier.

Fig. 2: Cultural differences and managers´ qualification - summary



Source: Own

It can be interesting to have a look at the group of exporters that do not consider cultural differences to be a problem for export to Latin America. Again most of them have a manager speaking at least Spanish (7 out of 11 firms) and in four cases even Portuguese as well. All seven Spanish speaking managers plus one non-speaker also have a personal Latin American experience, mostly again a long-term stay in the region, or a life-partner/family member from Latin America. (See Figure 2) Also five of these companies had historical bounds to the region in business. For example their predecessor or previous management before 1989 had active partners in Latin America, or they substitute a brand that was perceived as traditional in Latin America. From the three cases that do not have a manager speaking the language, nor being experienced in the region two are substantially interesting, one because it seems to be a very typical negative case as seen by author´s experience as well as the experience of interviewed diplomats and CzechTrade employees.

The first example is a small company without large resources, with a specific product of a consumer goods kind which highly relies on the help of governmental assistance. This company does not have any bigger/international partner nor any historic bounds in the region and is highly exposed to a domestic, international and even Czech competition. Yet the manager does not believe knowledge of the language is necessary nor that they would have to make any special changes in their approach to Latin American customers and partners.

If this first case can be seen as typical the other is completely deviant. It is a rather new and fast growing company, with highly specific product intended for an expert client with a very limited competition due to both the expertise of the product and their pricing. This company does not see cultural differences as a barrier since they communicate with professionals all over the world in English, because in this part of bio-chemical industry majority of terms does not have equivalents in other languages and also even the end costumer is an expert customer. Also the demand in this case is larger than the supply, therefore at this moment the company does not need to seek customers and even Latin American clients contact the company by themselves. This experience indicates that in highly specific fields with limited number of producers and informed customers the marketing strategy can be more passive and still create a substantial revenue for the company.

3.4 External-foreign barriers

The last group of barriers is the most rigid one when it comes to the ability of the firm to deal with them by adapting its internal organization. Different foreign consumer habits/attitudes is usually a crucial barrier in the initial phase of export. The exporter may manage to overcome this problem by for example adapting the product or creating a marketing strategy which changes the perception of their product to suit the needs of target group of customers. In some cases of course this will not be possible or profitably possible, which will naturally lead to the conclusion of export activities in the region. In the two cases of the companies in this research who mentioned this problem in context of Latin America, the products were not traditional for this region, but in the opinion of the manager it was possible to address this barrier through an adequate marketing strategy.

Socio-economic or political instability in the target country can be a barrier for the exporter, especially in the sense that the company needs to follow developments in the country/region, which is very often not entirely connected to the development of other regions but also because in some countries of Latin America the changes in political or economic situation might be more radical than in Europe in recent years. The relative instability compare to Europe can be a barrier especially for some companies in Arms and Defence industry, since different kinds of restrictions might apply to them depending on the political situation in the country; or even in Food industry, where for example in Venezuela in recent years the lack of foreign exchange caused by the recent economic turmoil caused the conclusion of long-lasting business relations.

Corruption is a problem that is not of course unique for Latin America but it is a general perception that this factor might be highly problematic for exporters in this region. The fact that only six managers perceive corruption as a barrier that is more serious in Latin America than in other non-European regions is a positive sign for Czech firms intending to export and fearing to encounter this problem.

Protectionism and bureaucracy at the target country on the other hand were mentioned often. Protectionism in 13 and Bureaucracy in 15 cases. These two barriers are very country-sensitive, both of them were almost exclusively mentioned in the case of Brazil and (to a lesser extend) Argentina. Brazil in this context is an interesting example. The extend of its bureaucracy and protectionism can be preventing new companies to enter the market, and is complicated to understand, but several exporters stated, than if the company manages to establish their position the same barriers are protecting them from new competition. “Customs and tariffs are a problem but it is same for everyone so it is not really such a problem because after you get through it limits other companies to catch up.” (Respondent 3) Other examples of protectionism than the obvious tariffs and quotas can be anti-dumping laws or domestic content legislation. (Korneliussen, Blasius, 2008: 219)

Keen competition is another barrier that appears more serious for Czech exporters, with over 46 percent mentioning it as a problem. Most of the competition is from large international companies or companies with larger governmental support but for example one smaller company of Food industry is competing mostly with other larger Czech companies exporting analogous product.

Conclusion

The concluded research shows that many of the barriers in reality encountered by Czech exporters are not the ones that first come in mind. Logistics, technical barriers or lack of capital do not seem to be critical factors in export strategy of Czech exporters for Latin America, but of course a previous export experience plays a significant role in perception of these problems, as the literature states (Volpe Martincus, Estevadeordal, Gallo et al., 2010: 139).

It can be surprising how many exporters perceive cultural differences as a barrier and it would be very interesting to focus further on what really are these cultural differences and how to reduce their negative impact on business. The most problematic for Czech exporters seems to be the category of external-foreign barriers, which is understandable since these problems cannot be overcome by the company´s internal organization. On the other hand keen competition is a problem that most of Czech companies will encounter on most markets and protectionism and bureaucracy at the target country are the most country-sensitive barriers from the list and therefore a new exporter can choose a country from the Latin American region which might be more suitable for his export purposes.

Overall this research showed that on the side of the private sector the qualification or the mental model of the export manager plays a critical role, his or her activity and education about the region practically determines how successful will the company be in this region and in many companies this is very undervalued. The goal of this research was to show that problems of Czech export are not black and white and to avoid one-sided criticism, therefore it is necessary to mention that the limits are not only on the side of exporters, but of course on the side of governmental assistance which is a very wide topic. In this research the assistance appears to be confusing for the exporters and not perfectly suitable for smaller companies.

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Contact Address

Mgr. Barbora Kaprálová
University of Hradec Králové, Faculty of Arts, Department of Political Science
náměstí Svobody 331, Hradec Králové, the Czech Republic
Email: Barbora.Kapralova@seznam.cz
Phone number:+420 724 807 289

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Appendix

Tab. 2: Perception of barriers to export to Latin America by Czech exporters

	Internal	Firms*	Frequency rate**	Rank***	External	Firms*	Frequency rate**	Rank***
Domestic	Qualification/adequacy of staff	9	34,6%	5	Bureaucracy in the base country	6	23,1%	7
	Production capacity	2	7,7%	16	Unqualified/inadequate staff at embassies/gov. agencies	7	26,9%	6
	Lack of managerial time	3	11,5%	15	Not optimal governmental support with financing/insurance of export	5	19,2%	11
	Lack of capital	1	3,8%	19	Limited info about foreign markets	5	19,2%	11
Foreign	Technical limits of product (standards, specifications)	2	7,7%	16	Different foreign consumer habits/attitudes	2	7,7%	16
	Difficult/slow collection of payments from abroad	4	15,4%	14	Protectionism (tariff/non-tariff barriers)	13	50,0%	3
	Difficult to obtain local distributors/partners	5	19,2%	11	Keen competition	12	46,2%	4
	Logistics (problematic transport, high shipping costs)	6	23,1%	7	Socio-economic or political instability	6	23,1%	7
	Cultural differences	15	57,7%	1	Corruption	6	23,1%	7
					Bureaucracy at the target country	15	57,7%	1

Source: Own data, form from Leonidou, 1995b: 19

** Firms: How many firms stated it as a barrier (Firms were allowed to state more than one barrier, therefore the total of this column is higher than the number of participating firms.*

*** Frequency rate: The percentage of firms mentioning this barrier, for example 13 firms mentioning first barrier is an exact half of respondents.*

****Rank: How does the barrier rank among all of the 19 mentioned barriers. Same numbers have the same rank, therefore the following rank is then omitted.*