

GAO

United States General Accounting Office

Report to the Chairman, Subcommittee on
Commerce, Consumer and Monetary
Affairs, House Committee on Government
Operations

February 1986

EXPORT PROMOTION:

Activities of the Commerce Department's District Offices



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United States
General Accounting Office
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National Security and International
Affairs Division

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February 14, 1986

The Honorable Doug Barnard
Chairman, Subcommittee on Commerce,
Consumer, and Monetary Affairs
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

At the request of your Subcommittee, we reviewed the mission, activities, and effectiveness of the Department of Commerce's district offices. These offices, now numbering 47, are currently included in Commerce's International Trade Administration as the United States and Foreign Commercial Service (US&FCS), Domestic Operations. This letter summarizes the primary findings of our work. Appendix I contains our responses to the six specific questions raised in the Subcommittee's request. Appendix II presents the review objectives, scope, and methodology. Appendixes III through XI present relevant data and detailed observations supporting the responses to your questions.

The stated mission of the district offices is to promote exports. The primary goal is to assist small and medium-sized firms to develop their export potential by providing them with information and advice to help them begin exporting or, if already exporting, to enter new markets. District office personnel are expected to seek out and individually counsel firms about their export potential and about Commerce services that can help them to export. The district offices also heighten export awareness in the business community by sponsoring or participating in export seminars and by working with state and private export promotion organizations. In addition to efforts designed to realize the primary goal, district offices also respond to any business request for export information and advice. For example, in recent years district offices have devoted an increasing portion of their resources to assisting businesses to comply with export control regulations.

US&FCS tracks its success in meeting its primary goal by trying to measure how many new exports take place as a result of district office counseling and other assistance. District office trade specialists make monthly reports on export accomplishments; that is on the new exports attributed to district office export promotion efforts. US&FCS aggregates these data to demonstrate the total contribution that the district offices make to U.S. exports. For example, in fiscal year 1984 US&FCS reported

\$1.14 billion in new exports as a result of district office export promotion efforts.

Business Responses to GAO Questionnaires

We conducted two different questionnaire surveys to determine how successful the district offices are in promoting new exports and how useful they are to the business community. The first survey was sent to essentially all firms that the district offices reported had started to export or had exported to new markets as a result of their efforts. This questionnaire was designed, among other objectives, to determine the accuracy of reported export accomplishments, which has been the US&FCS primary measure of program effectiveness. The second survey was sent to a random sample of firms reported as having been counseled by the district offices in an effort to induce them to begin exporting or to otherwise assist them on exporting matters. This questionnaire was sent out to determine the firms' judgements as to how useful these efforts were.

Commerce Overstated Export Accomplishments

When compared with the responses to our survey, US&FCS-reported district office accomplishments in helping businesses to begin exporting or to export to new markets appear to be substantially overstated. Forty-five percent of the firms answered that the export claimed for their firm was either not their first or not their first into the market cited. In addition, supplemental information we collected indicates that some exports, including some very large reported export accomplishments, never took place. Our survey work completed in 1984 in 12 district offices revealed that 3 reported exports with a value of \$318 million accounted for 70 percent of export accomplishments claimed by these offices for the year ending June 30, 1983. However, when we contacted these firms, two said that the reported exports had never taken place and the third reported that the export took place with little or no help from a district office. The results of the first survey questionnaire regarding the value of the export promotion counseling showed that of the sample of firms that Commerce had reported as having made new exports because of district office efforts, only 38 percent remembered the counseling sessions and found them at least somewhat influential in making the reported exports.

Commerce Improves Export Reporting Criteria

We attribute the results of our surveys to insufficient control over the accuracy of district office reporting. Further, the US&FCS reporting criteria defined "new to export" and "new to market" to mean the absence

of sustained exporting only over the preceding 12 months and did not provide for sufficient causal relationship between district office efforts and the exports reported. We briefed US&FCS about these problems and it subsequently tightened controls over reporting and revised the criteria for measuring district office successes in developing new exporters or new markets. We reviewed the revised criteria and controls and believe that they will produce more useful data about this facet of district office performance. (See app. VI for a discussion of this matter.) However, we believe the data would be even more useful if they were systematically tested by comparing reported successes with the perceptions of new exporters or new market entrants of the district offices' role in their successes. We are making a recommendation to this effect. (See app. I, p. 9.)

Businesses Find Export Facilitation Services Useful

We also learned from our surveys and from interviews with businesses that, despite our critical assessment of the US&FCS claims of export accomplishments, the firms assisted by the district offices did, for the most part, find that help useful. The district offices indirectly contribute to the nation's export performance by facilitating exports to established markets. Approximately two-thirds of the 714 firms responding to the first survey remembered being helped by district office trade specialists and stated that the contacts had been useful to at least some extent. Two-thirds of the almost 400 firms in the second survey remembered the contacts which had been recorded by the district offices; 87 percent of them stated that the district offices had been useful to some degree, even though that help could not be depicted as being key to their firms' export initiatives or performance. While US&FCS tries to measure the effectiveness of its export promotion efforts by reporting export accomplishments, it has no measure of the usefulness or value of the less-directed assistance to firms, which we call export facilitation. This is unfortunate, because the most useful function of the district offices appears to be quite different from the primary mission assigned to them. We believe that our recommendation for a periodic survey of client firms would also provide useful information on the value of activities to facilitate exports.

Conclusions

In summary, we found that the district offices were not as effective in influencing businesses to begin to export or to enter new markets as their reported accomplishments suggested. On the other hand, our data showed that they have achieved some success toward this goal and also have been useful to the exporting community in facilitating exports.

Recommendation of President's Private Sector Survey on Cost Control Regarding District Offices

The issue of the role and usefulness of the district offices is especially important because the President's Private Sector Survey on Cost Control (PPSSCC) recommended that these offices be phased out and that export promotion activities be centralized at Commerce's Washington headquarters. The PPSSCC recommendation was based on an analysis of fiscal year 1981 data which appeared to show that most of the dollar value of US&FCS-reported export accomplishments came from the exports of a small number of firms. For example, 17 large exports accounted for \$825 million, or 53 percent, of the \$1.6 billion of export accomplishments US&FCS reported for that fiscal year. Three of these 17 reported export sales accounted for \$450 million, or 29.7 percent, of the year's total. The PPSSCC concluded from this analysis that it was wasteful to devote resources to low-potential exporters and that export promotion efforts should be concentrated on high-potential exporters.

Accordingly, the PPSSCC recommended that export promotion work be limited to a headquarters organization which would target and counsel high-export-potential firms via electronic means from Washington. The field-based organization which maintained grass-roots outreach to local firms would be eliminated.

GAO Does Not Agree With Recommendation

Our work showed that the PPSSCC data and analysis do not adequately support its conclusions and recommendations. Its proposal is based on an analysis of what we found to be erroneous and misleading US&FCS-generated data. As noted above, our survey of firms for which US&FCS claimed export accomplishments revealed that (1) reported high-dollar value exports, such as those so important to the PPSSCC recommendations, did not actually take place and (2) many claimed new exports or exports to new markets were overstated or the district office contributions to the exports were exaggerated.

A further weakness in the PPSSCC study is that it did not collect data on the usefulness of district office work with state and other trade promotion organizations nor on the value of the district office export facilitation activities which we found to be useful to the business community. For these reasons, we do not agree with the PPSSCC recommendations.

Agency Comments

The Department of Commerce commented that a major reason for the overstatements of new-to-export and new-to-market accomplishments was its excessive reliance on numerical goals as a means of determining the effectiveness of its program. We agree with Commerce's comment

that “while it is necessary to have some tangible evidence to measure our efforts, we must recognize there is no decisive way to determine the effect of our counseling on businesses.” Commerce stated that to more realistically assess its efforts, it is stressing the need to combine a quantitative and qualitative approach. (See app. XII.)

Commerce stated that changes in its reporting process and requirements (see app. VI) will guard against the abuse revealed and ensure the reliability of the information supplied to headquarters by the district offices. Finally, commerce agreed to implement our recommendation that the Director General of the US&FCS periodically survey firms to determine the value of the counseling services.

We made revisions in this report in response to Commerce’s technical comments.

Sincerely yours,

A handwritten signature in black ink that reads "Frank C. Conahan". The signature is written in a cursive, slightly slanted style.

Frank C. Conahan
Director