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# Export Barriers and Competitiveness of Small and Medium-sized Enterprise in Developing Countries: Case study in Ethiopian Leather Footwear Manufacturing Firms

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## ***Abstract***

*Export is one of the most important business activities that play a significant role for economic development of nations. Hence, this study aimed to investigate the export barriers and export competitiveness of the Ethiopian Leather Footwear manufacturing firms in particular and the industry in general. Purposively, 100 respondents were selected from 15 exporting firms in the leather industry. In addition, interview was held with some top managers and owners to collect more detail information. The survey data is analyzed using factor analysis and MDS techniques. Using factor analysis, 10 conceptually linked components were empirically identified. Both factor loadings and factor score coefficient results were used to interpretation the factor analysis result. With different perceived intensity, all the export barriers such as government policy, human resource, financial, product quality, marketing knowledge and information, competition barriers are important in impeding the export competitiveness of the industry. Going by the MDS, due to different perceived intensity of the barriers, four clusters of firms were constructed. Hence, based on the topmost barriers, the management of each exporting firms need to give focus to boost the competitiveness level. This implies that policy makers of the exporting firms, the industry and the government in general need to apply differentiated approaches.*

**Keywords:** *Developing countries, Export barriers and Competitiveness, SMEs, and Leather Footwear Industry*

## **1. INTRODUCTION**

Export is one of the macro-economic purposes of several countries both developed and developing countries of the world. It contributes a crucial role to nation's economic growth, eases poverty in developing countries and increase the profitability and growth of exporting firms. In line with this point of view, Kazem & Van Der Heijden (2006) elucidated that export growth is one of the top prioritize strategies for successful national development goals for example industrial growth.

Export competitiveness is the capability of nations or firms to obtain a significant market share in internationally sophisticated markets. Export competitiveness of a firm relies on its potential to enlarge its position in the global markets by offering quality products on time at competitive prices and by reacting quickly to changes in demand and skills to successful manage product segregation, by strengthening innovative capacity and effective marketing outlets (UNCTA, 2000b). However, several firms in least developed countries do not export although export is regard as inevitable in the increasingly integrated world markets (Pinho & Martins, 2010). Export barriers are constraints that make difficult the firm's capability to launch, develop business operations in the international markets (Morgan & Katsikeas, 1997). Export barriers intensify malfunction in international operations, bringing financial losses alongside negative attitudes towards international business activities (Leonidou, 1995). By doing so, the export barriers make the export competitiveness of the developing countries more difficult in abroad.

Previous studies conducted in Sub-Saharan Africa (SSA) revealed that there are only few firms involving in export and sell their outputs in the foreign markets (Van Biesebroeck, 2005; Rankin, Soderbom & Teal, 2006; Milner & Tandrayen, 2007).

Ethiopia, one of the SSA countries, possesses one of the largest populations of livestock in Africa and 7-9<sup>th</sup> in the world. However, the leather footwear export marketing activities of the country rated as low. Studies on Ethiopian leather footwear industries made by UNIDO, and other research studies affirmed that the leather footwear export marketing activities are not sufficient due to several challenges facing the exporting firms (UNIDO, 2005, & Sutton & Nebil, 2010). A study on shoe production in Ethiopia made by GDS indicated that the Ethiopian leather footwear industry is less competitive at international markets (GDS, 2006). Besides, Tomas (2011) has explained the most important problems of leather footwear manufacturing firms such as shortage of raw materials, long procurement lead time for imported materials, lack of demand,

production delays and bottleneck at the workstations, working far from the standard and the installed capacity and inefficient utilization of resources. Because of this, the leather footwear-manufacturing firms of the industry are characterizing by low productivity, poor working conditions, and improper utilization of resources, weak relationship with customers and suppliers and poor managerial capabilities.

Even though large body of literature exists in terms of the need for inferring the role played by perceived barriers to exporting (Leonidou, 1995, 2004 & Katsikeas & Morgan, 1994), there is still lacks of comprehensive theory base that categorize the major export barriers of SMEs in developing countries whose economic development highly relies on this type of business activities. Furthermore, Tesfom *et al.* (2006) and Altintas *et al.* (2007) elucidated that there has been lack of research that deals with exporting barriers in developing nations. Similarly, Ahmad and Julian (2006) and Leonidou (2004) have explained that majority of the studies have reported upon data gathered in developed nations particularly western countries. Hence, understanding the scope and the importance of different export barriers can be expand by extending researches outside of the developed countries arena. Thus, this study will contribute to the literature by filling the existing research gap in the developing countries. The present study, therefore, attempts to scrutinize the export barriers and its impact on the competitiveness of the leather footwear-manufacturing firms (at micro-level) in particular and the leather footwear industry (at macro-level) in general.

## **2. LITERATURE REVIEW**

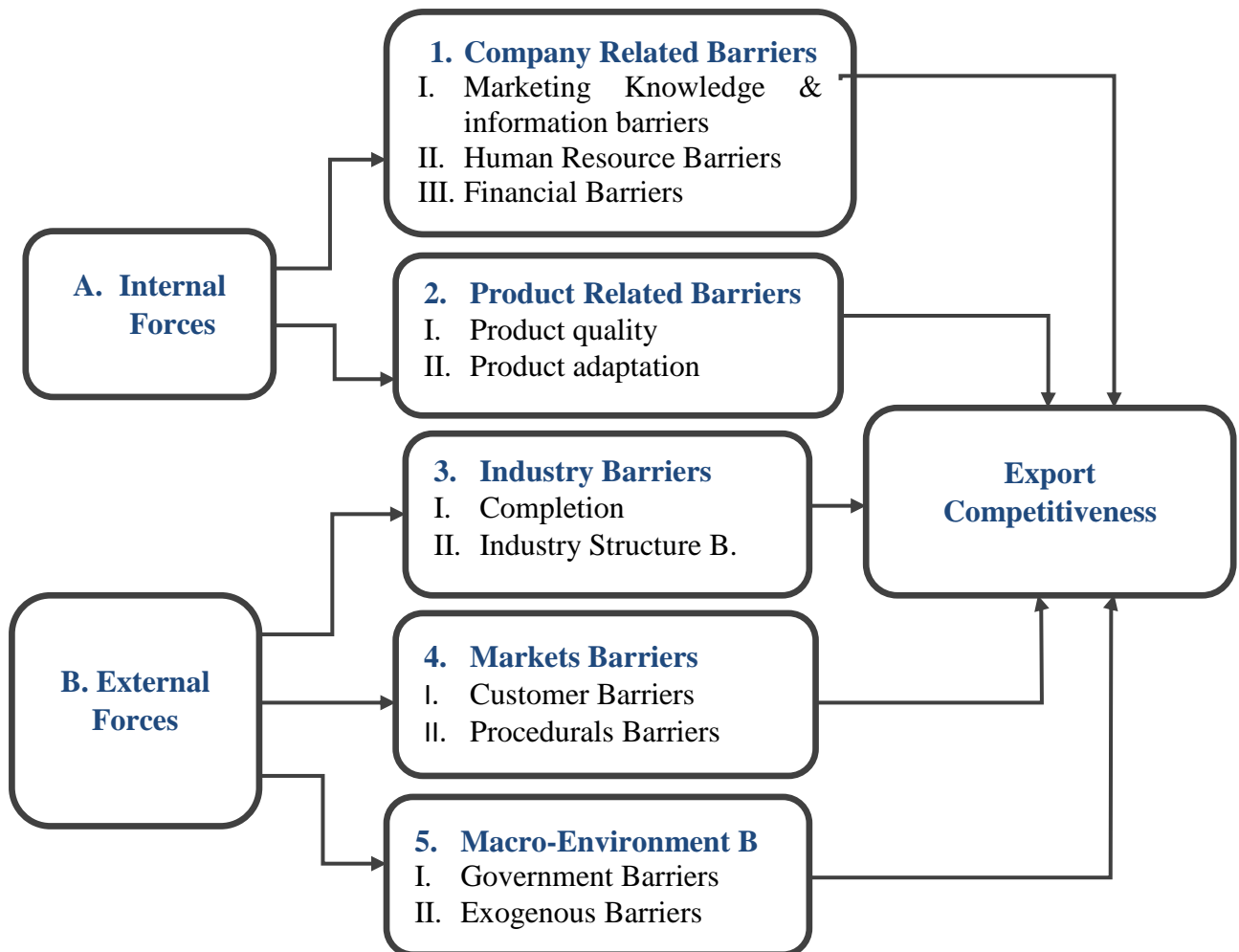
### **2.1. Export Barriers and Competitiveness**

Export barriers have been operationalized as hindrance that refer to attitudinal, structural, operational and other restrictions that hamper the firms' capability to develop or maintain international operations (Leondiou, 1995) whereas export competitiveness is one of the key elements that determine the future growth of the export firms. It allows the realization of greater economies of scale and scope by offering larger and more diverse markets. The export competitiveness of a nation relies on its domestic enterprises whereas the export competitiveness of a firm relies on its capability to keep going or expand its position in foreign markets by offering such as quality products on time and at competitive prices (UNCTAD, 2002b).

## 2.2. Conceptual Framework and Propositions

Several authors have recommended framework for classifying export barriers (Cavusgil & Zou 1994; Morgan 1997; Tesfom *et al.*, 2006 & Leonidou, 2004). Cavusgil & Zou (1994) have identified internal and external forces, which determine the marketing strategy in an export venture. Similarly, Tesfom *et al.* (2006) mentioned the export barriers of SMEs in Eritrea from the internal and external forces aspect. In the model developed by Cavusgil and Zou (1994), all factors rooted in the macro-environment were treated as industry or export market characteristics. However, reviewed literatures revealed that problems resulting from government policies are complicated to categorize under industry or export marketing characteristics (Christensen & Da Rocha, 1994 & Seringhaus, 1987). To overcome the problem, Tesfom has added the macro-environment dimension in his model separately. Hence, the conceptual framework of this study follows the framework of Tesfom et al (2006) as presented in figure 1.

**Fig.1. Conceptual Framework of the Study**



**Source: Adapted from Tesfom *et al.* (2006)**

The conceptual framework of this study included internal and external forces and both in turn comprising several sub-categories.

### **2.2.1. Internal Forces**

The internal export problems are intrinsic for the company and typically related with inadequate organizational resources for export marketing activities. According to Cavusgil & Zou (1994), Morgan (1997), Tesfom *et al.* (2006) and Leonidou (2004), the internal forces divided into company and product related barriers.

#### **2.2.1.1. Company Related Barriers**

##### **2.2.1.1.1. Marketing knowledge and Information Barriers**

Marketing knowledge and information are one of the most significant sources that enable exporting firms to be successful. Albaum, Strandkov and Duerr (1998) explained that market opportunities abroad might use strong pressure upon a firm's willingness to begin and expand exports. However, many firms confront troubles in effectively identifying potential markets or foreign opportunities, which linked closely with the problems in conducting research in foreign markets. According to Czinkota and Ronkainen (2001), even though companies have systematic export researchers, they often are confronted with several problems related with the source, quality and comparability of the information required. Furthermore, SMEs in developing countries face difficulties in obtaining access to some data sources, achieving timely delivery of the information and paying high prices to obtain certain data. This problem affects the effective implementation of international marketing research, thus distorting the real picture of foreign markets and leading to false management decisions.

*PI. Marketing knowledge and information barriers negatively affect the competitiveness of the Leather footwear-manufacturing firms.*

##### **2.2.1.1.2. Financial Barriers**

A strong financial capability is one of the means to secure price advantage in the segmented market of SMEs in developing countries. However, several SMEs in developing nations run into dilemmas for lack of timely and ample working capital, which add costs and put in danger the whole production operation (Cardoso, 1980 & Kaleka & Katsikeas, 1995; Dicle and Dicle, 1992 & Bodur, 1986). Involvement in export activities requires huge expenditures in research overseas markets, visiting foreign customers, adapting the export marketing strategy etc. (Al-Hyari *et al.*,

2012), which creates financial burdens for the SMEs in developing nations, especially if they already strained financially because of domestic business problems.

*P2. Financial barriers negatively affect the competitiveness of the Leather footwear-manufacturing firms.*

#### **2.2.1.1.3. Human Resource Barriers**

In an attempt to be competitive internationally, firms require competent managers/owners in identifying export opportunities, designing and implementing export marketing functions, and monitoring business with overseas customers as well as handling export documentation and logistics (Katsikeas, Leonidou & Morgan, 2000). However, lack of export oriented managers, such as low export commitments (Pinho & Martins, 2010), limited export knowledge, skills, time and unrealistic exporting fears (Julian & Ahmed, 2005 & OECD, 2009) impedes export competitiveness of a firm. Lack of qualified personal found to be an important international barrier to exporting (Pinho & Mortins, 2010; Rabino 1980; Tesfom *et al.*, 2006 & Tseng & Yu, 1991). Furthermore, SMEs from developing countries often have trouble in hiring specialized personnel (Ortiz *et al.*, 2008) and this can be large limitations to international growth and competitiveness. Besides, Leonidou (2004) posited that language and cultural differences are among the most often mentioned barriers in exporting business.

*P3. Human Resource barriers negatively affect the competitiveness of the Leather footwear-manufacturing firms.*

#### **2.2.1.2.Product Related Barriers**

##### **2.2.1.2.1. Quality Barriers**

Quality barriers often signify as one of the most crucial situations for entering and remaining in the international markets. It concerns packaging, meeting importers quality standards and establishing proper design and image for export markets (Christensen & Da Rocha, 1994). There are several quality standard problems in less developed world. According to Lall (1991), a product that sells well in a developing country may not sell at all in the developed country. Majority of the quality problems are the result of insufficient knowledge about market requirements, product characteristics and production technologies. For example, Figueiredo and Almeida (1988) and Cardoso (1980) have mentioned that poor product quality and high sensitivity of products to fashion were major problems to Brazilian exporters.

*P4. Product Quality barriers negatively affect the competitiveness of the Leather footwear-manufacturing firms.*

#### **2.2.1.2.2. Product Adaptation Barriers**

This barrier is associated with the firm's capacity and flexibility to adjust its products to the needs of customer. The domestic product standards, customer standards and buying behaviors may be unsuitable for overseas sales and may require adaption (Lall, 1991 & Katsikeas, & Morgan, 1994). Products sold abroad must packaged in certain way for safety during transportation, storage and handling. Furthermore, instructions contained inside packaging or on it must written in a particular language/s and must include certain information needed by the host country, such as expiration date, type of ingredients and net weights. However, majority of product adaptation problems are aroused due to lack of resources to meet the foreign market requirements, poor quality control techniques (Figueiredo & Almedia, 1988 & Cardoso, 1980), poor quality of raw material (Figueiredo & Almedia, 1988), packaging and labeling requirements, strict product design and specification (Brooks & Frances, 1991).

*P5. Product Adaption Barriers negatively affect the competitiveness of the Leather footwear-manufacturing firms.*

#### **2.2.2. External Export Barriers**

Many researchers have acknowledged that the causes of a significant number of exporting problems are rooted in the external environment (Tesfom *et al.*, 2006). The external export barriers classified into industry barriers, export market and macro environment barriers.

##### **2.2.2.1. Industry Barriers**

###### **2.2.2.1.1. Industry structure**

According to Bodur and Cavusgil (1985), firm size has related with firms' export activities and interest in exporting. The larger the firm in size, the higher the size benefit over the smaller firms and this will often have a positive effect on the export operations. Reid (1987) has explained that the bigger firms enjoys more "slack" in managerial and financial resources as well as production capacity hence; allows them to devote greater efforts to exporting than smaller firms. Besides, Figueiredo and Almeida (1988) and Cardoso (1980) explained that firm's size and high industry concentration are essential export hurdles to small firms. Furthermore, the impact of technology advancement on export activity has significant role. Christensen *et al.* (1987) explained that if



exporters marketed their products in the industrialized countries, technology could be an essential source of comparative advantage over local producers.

*P6. Industry Structure barriers negatively affect the competitiveness of the Leather footwear-manufacturing firms.*

#### **2.2.2.1.2. Competition Barriers**

According to Tesfom *et al.* (2006), in principle competition should not regard as a problem if symmetry information existed among competitors in the market. However, information on export opportunities is expensive and not simply accessible. Moreover, the kind of information perceived by a firm influences its interest in exporting. Competition in both international and domestic markets identified as a big hindrance to exporting. For instance, price competition (Cardoso, 1980 & Fluery, 1986), aggressive competitors in the foreign market (Cardoso, 1980), lack of competitive prices and fierce competition in export markets (Kaleka & Katsikeas, 1995) were reported as export barriers.

*P7. Marketing knowledge and information barriers negatively affect the competitiveness of the Leather footwear-manufacturing firms.*

#### **2.2.2.2. Export Market Problems**

##### **2.2.2.2.1. Procedural Problems**

One of the most quoted hindrances with regard to exporting is the time and formality requirements to comply with foreign and domestic market regulations. Many SMEs find customs documentation, shipping arrangements and other export procedures too difficult to manage. They tend to associate these with excessive costs, time losses and red tape, which encourage a negative attitude toward handling export (Moini, 1997). Shortages of adequate information about export procedures pointed out as export barriers in different studies (Haidari, 1999). According to Cateora and Graham (2001), foreign governments can impose a number of controls on companies that sell goods in their markets such as entry restrictions, price controls, special tax rates and exchange controls. These controls can turn the exploitation of export opportunities into a tedious, expensive and prolonged task, which deters many small firms from venturing into foreign markets (Leonidou, 2004).

*P8. Procedural barriers negatively affect the competitiveness of the Leather footwear-manufacturing firms.*

#### **2.2.2.2.2. Customer Barriers**

In addition to specific quality problems, exporters from developing countries face the poor reputation of their country. According to Ford *et al.* (1987), the place where the product produced and originated plays a significant role in the export business of firms. Mohy-ud-Din and Javed (1997) reported that precipitated by the dilapidated export demand for low quality textiles, the Pakistan yarn manufacturers have lost market share in almost all their major markets because of image problem. The poor image of the products in foreign markets and country of origin effect lead to insufficient foreign demand. Similarly, poor image of products in the foreign market and insufficient foreign demand (Cardoso, 1980), culture and language differences (Brooks & Frances, 1991) and countries of origin effect (Lall, 1991) are customer related barriers that impede the export competitiveness of developing countries.

*P9. Customer barriers negatively affect the competitiveness of the Leather footwear-manufacturing firms.*

#### **2.2.2.2.3. Macro Environment Barriers**

##### **2.2.2.2.3.1. Government Policy Barriers**

Export regulation of the domestic government (Figueiredo & Almeida, 1988), inadequate diplomatic support, protectionist barriers and import substitutions (Cardoso, 1980; Figueiredo & Almeida, 1980; Frances, 1985 & Dymsha, 1983) were identified as export barriers. Further, infrastructure difficulties (Colaiacovo, 1982) and inadequate government's export promotion policies and shortages of gathering and provision of information on available export opportunities and ineffective promotion of a country's export were important factors limiting export activities. The shortage of government's export promotion service is a main bottleneck for firms in developing countries as many exporting companies lack the essential export market knowledge and marketing skills (Morawitz, 1981).

*P10. Government Policy barriers negatively affect the competitiveness of the Leather footwear-manufacturing firms.*

##### **2.2.2.2.3.2. Exogenous Export Barriers**

Exogenous barriers happened rapidly and often very hard to predict and monitor (Leonidou, 2004) of which exchange rate policy affect export - financing programs and the availability of foreign currency (Luis (1982). In addition, Juarez (1993) and Morawitz (1981) pointed out that the low level of competitiveness in Colombian manufactured products was, among other factors, due to an appreciation of the real exchange rate. Furthermore, cost of transportation and transport

service and infrastructure (Brooks & Frances, 1991 & Colaiacovo, 1982) were significant export obstacles. Besides, communicating with foreign customers is essential for the smooth monitoring of the company's export operations. However, poor communication exists in many foreign countries especially those with an underdeveloped economy (Terpstra & Sarathy, 2000).

*P11. Exogenous export barriers negatively affect the competitiveness of the Leather footwear-manufacturing firms.*

### **3. Data and Method**

This study consists of both quantitative and qualitative approach to analysis the data collected through questionnaire and interview. Close-ended and open-ended questionnaire were prepared and administered. The questionnaire was standard which adapted from Tesfom *et al.* (2006) and translated into Amharic, the Ethiopian national language, from English. Structured interview questions were used to collect in-depth information from selected top managers and owners. Fifteen firms were selected purposively from the leather footwear industry and out of which a total 100 respondents were selected using same sampling techniques. However, only 61 respondents have filled and returned the questionnaire, which yield 61% response rate.

Both factor analysis and MDS techniques were used to identify the underlying factors and to cluster the selected firms of the industry based on the intensity of the perceived export barriers respectively. A five-point likert scale extending from "strongly disagree (1) to strongly agree (5)" was the response vehicle for each of the questions. The reliability of the concept covered and the sampling adequacy of the study were tested using Cronbach's Alpha and KMO and the result was 0.939 and 0.711 respectively, which was acceptable. The S-STRESS value used to determine the badness-of-fit between the proposed structure and the original data in the MDS. With a stress measure of 0.0 and R square of 1.0, the data had a perfect fit.

## **4. Results and Discussion**

### **4.1. Factor Analysis**

Factor analysis is used to reduce the large variables to a smaller number of factors that represents the important set of barriers to export barriers. Varimax rotation method was used to simplify the interpretation of the factor analysis. Rotation is a way of maximizing high loadings and minimizing low loadings. From the rotated factor matrix, the factor score coefficient result of each variable against the factor loading was calculated. Thus, both factor loadings and factor score coefficient results were employed for interpretation. The total 44 variables reduced into ten

underlining dimensions with Eigen value of at least one. For simplicity, items loading at least 0.5 were considered practically significant (Hair, Anderson, Tatham and Black, 2005). The ten factors determined using principal component analysis are presented in Table 1.

**Table 1**  
**Factor Analysis of Barriers to Export**

| Barriers   | Factor |       |   |   |   |   |   |   |   |    |
|--|--------|-------|---|---|---|---|---|---|---|----|
|  | 1      | 2     | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Lack of export promotion programs sponsored by the government                                | 0.775  |       |   |   |   |   |   |   |   |    |
| Lack of export promotion programs sponsored by international organizations (eg. UNIDO)       | 0.775  |       |   |   |   |   |   |   |   |    |
| Lack of experience in planning and executing export operations                               | 0.749  |       |   |   |   |   |   |   |   |    |
| Lack of personnel trained and qualified in export marketing.                                 | 0.712  |       |   |   |   |   |   |   |   |    |
| Lack of domestic experts in export consulting  | 0.628  |       |   |   |   |   |   |   |   |    |
| The lack of management exposure to other cultures and to different methods of doing business | 0.611  |       |   |   |   |   |   |   |   |    |
| Low management (owner) emphasis on developing export market activities                       | 0.609  |       |   |   |   |   |   |   |   |    |
| Lack of specific information regarding foreign agents, distributors and prospective buyers   | 0.597  |       |   |   |   |   |   |   |   |    |
| Lack of private sector firms providing credit  | 0.594  |       |   |   |   |   |   |   |   |    |
| Red tape in public institutions  | 0.533  |       |   |   |   |   |   |   |   |    |
| High international communication costs (telephone fax, travel)                               | 0.528  |       |   |   |   |   |   |   |   |    |
| Inadequate diplomatic support  | 0.516  |       |   |   |   |   |   |   |   |    |
| Lack of government assistance in overcoming export barriers                                  | 0.509  |       |   |   |   |   |   |   |   |    |
| Protectionist barriers   |        | 0.792 |   |   |   |   |   |   |   |    |
| Insufficient foreign demand  |        | 0.746 |   |   |   |   |   |   |   |    |
| Strong competition from domestic producers in the foreign market                             |        | 0.716 |   |   |   |   |   |   |   |    |
| Lack of knowledge about export procedures and practices                                      |        | 0.712 |   |   |   |   |   |   |   |    |
| Lack of authority for management to decide on exports  |        | 0.65  |   |   |   |   |   |   |   |    |

|  |  |       |       |       |      |       |       |       |       |
|--|--|-------|-------|-------|------|-------|-------|-------|-------|
| Political instability in foreign markets                             |  | 0.601 |       |       |      |       |       |       |       |
| Problems in making arrangements for getting paid                     |  | 0.508 |       |       |      |       |       |       |       |
| Language problems to communicate with overseas customers             |  | 0.50  |       |       |      |       |       |       |       |
| Extensive export documentation requirements                          |  |       | 0.766 |       |      |       |       |       |       |
| Difficulty in meeting export packaging and labeling requirements     |  |       | 0.758 |       |      |       |       |       |       |
| Poor image of products in foreign markets                            |  |       | 0.636 |       |      |       |       |       |       |
| Strict credit requirements of the bank                               |  |       | 0.586 |       |      |       |       |       |       |
| Too small in size to initiate export operations                      |  |       | 0.561 |       |      |       |       |       |       |
| Difficulty in meeting importers product quality standards            |  |       | 0.511 |       |      |       |       |       |       |
| Lack of knowledge to locate foreign marketing opportunities          |  |       |       | 0.802 |      |       |       |       |       |
| Lack of adequate skill to adapt products for foreign markets         |  |       |       | 0.755 |      |       |       |       |       |
| Inability of the firm to self-finance exports                        |  |       |       | 0.646 |      |       |       |       |       |
| Lack of pricing knowledge for foreign markets                        |  |       |       | 0.582 |      |       |       |       |       |
| High cost of capital to finance exports                              |  |       |       |       | 0.78 |       |       |       |       |
| High value of domestic currency                                      |  |       |       |       | 0.72 |       |       |       |       |
| High freight costs to foreign markets.                               |  |       |       |       |      | 0.708 |       |       |       |
| Lack of private sector firms providing export services               |  |       |       |       |      | 0.693 |       |       |       |
| High interest rates  |  |       |       |       |      | 0.59  |       |       |       |
| Lack of adequate quality of raw materials                            |  |       |       |       |      |       | 0.801 |       |       |
| Strong competition from other foreign producers in potential markets |  |       |       |       |      |       | 0.76  |       |       |
| Problems in making shipment arrangement and meeting delivery dates   |  |       |       |       |      |       |       | 0.751 |       |
| Lack of ability to supply required quantity on continuous basis      |  |       |       |       |      |       |       | 0.672 |       |
| Product quality problems   |  |       |       |       |      |       |       |       | 0.766 |
| High sensitivity of products to fashion                              |  |       |       |       |      |       |       |       | 0.608 |
| Lack of export marketing research                                    |  |       |       |       |      |       |       |       | 0.703 |
| Restrictive foreign tariffs, rules and regulations                   |  |       |       |       |      |       |       |       | 0.531 |
| Extraction Method: Principal Component Analysis                      |  |       |       |       |      |       |       |       |       |
| Rotation Method: Varimax with Kaiser Normalization                   |  |       |       |       |      |       |       |       |       |
| a. Rotation converged in 16 iterations.                              |  |       |       |       |      |       |       |       |       |

Source: Own survey result (2015), SPSS output

#### **4.1.1. Conceptual Classification of Export Barriers**

The items loaded into factor 1 are mainly government and human resource related barriers. The actual factor is the same as the proposed one and termed as government and human resource barriers. The second factor conceptually connected eight barriers, which associated with environmental barriers. Hence, this factor is termed as environment barriers. In the third factor, six items are loaded and this factor is termed as product adaption barriers. Four marketing knowledge and information related barriers are loaded into the fourth factor. The items under this factor are similar to the items named as informational barriers by Gunaratne (2014). On the fifth and sixth factors, two and three items related to financial and exogenous export barriers are loaded respectively. The seventh factor with two items was termed as competition barriers and two conceptually interrelated items loaded into the eighth factor and termed as logistic barriers. The ninth factor conceptually linked two product quality barriers whereas the last factor with two items intuitively termed as export market research and foreign governments.

#### **4.1.2. Interpretation of the Result**

Factor loadings are important results for the interpretation of the factors especially the high ones (Field, 2000). Besides, the factor score coefficient results used in supplement to the factor loadings. Accordingly, both factor loadings and factor score coefficient results were used to interpret the factor analysis result.

##### **4.1.2.1. Government and Human Resource Barriers (14.648)**

###### **4.1.2.1.1. Government Policy Barriers**

According to the factor loadings and factor score coefficient results the significant barriers are lack of export promotion programs sponsored by the government (0.775 & 0.179), lack of export promotion programs sponsored by international organizations (0.775 & 0.164), red tape in public institutions (0.533 & 0.142), inadequate diplomatic support (0.516 & 0.093) and lack of government assistance in overcoming export barriers (0.509 & 0.069) respectively. Interviewed managers also affirmed that the government policy barriers are significant. This study is consistent with previous findings for example; lack of export promotion and assistance programs sponsored by the government (Kaleka & Katsikeas, 1995 & Figueiredo & Almeida, 1988), lack of sufficient financial support from governments (Owns, 2007 & Alrashidi, 2011), poor

infrastructure facilities (Colaiacono, 1982) and export regulation of domestic government barriers (Figueiredo & Almeida, 1988) were important barriers to successful export marketing.

#### **4.1.2.1.2. Human Resource Barriers**

Based on the factor loadings and factor score coefficient results, the significant human resource barriers are lack of experience in planning and executing export operations (0.749 & 0.163), lack of personnel, trained and qualified in export marketing (0.712 & 0.140), and lack of management exposure to other cultures and to different methods of doing business (0.611 & 0.137) respectively. Besides, interviewed managers affirmed that the above aforementioned barriers are important in impeding the export competitiveness of the industry. This finding confirms earlier research such as limited export knowledge, skills, time and unrealistic exporting fears (Julian & Ahmed, 2005 & OECD, 2009) and lack of export oriented managers (Pinho & Martins, 2010) were significant in impeding export competitiveness. Besides, Tesform *et al.* (2006) indicated that the human resource barriers were important in affecting the export activities of Eritrean footwear manufacturing firms. Furthermore, Sonobe and Otsuka (2006 & 2011) mentioned that in developing countries where absence of adequate managerial capital exists, it is impossible to be competitive internationally.

#### **4.1.2.2. Environmental Barriers (11.402)**

Insufficient foreign demand (0.746 & 0.194), problems in arranging for getting paid (0.508 & 0.111) and lack of knowledge about export procedures and practices (0.712 & 0.148) are included under the environmental barriers. Besides, strong competition from domestic producers in the foreign markets (0.716 & 0.204), lack of authority for management to decide on exports (0.650 & 0.100), and language problems to communicate with overseas customers (0.50 & 0.060) are come out. However, they are not much significant. In addition, protectionist barriers (0.792 & 0.205) and political instability in foreign markets (0.601 & 0.103) are hindered the export activities of the firms under study. In previous research, political instability in foreign markets was one of the major barriers to export activities (Leonidou, 1995; Ahmed *et al.* 2004 & Kaleka & Katsikeas, 1995). However, in this study political instability is not a big problem, which seems contradict against previous findings. To end with, the environmental barrier has an average impact on the export competitiveness of the industry.

#### **4.1.2.3. Product Adaption Barriers (8.164)**

Difficulty in meeting export packaging and labeling requirements and difficulty in meeting importers product quality standards are important barriers with a factor loading and factor score coefficient results of (0.758 & 0.287) and (0.511 & 0.131) respectively. Furthermore, extensive export documentation requirements (0.766 & 0.276), poor image of products in foreign markets (0.636 & 0.226), strict credit requirements of the bank (0.586 & 0.178) and too small in size to initiate export operations (0.561 & 0.183) are also loaded into this factor from procedural, customer, financial, and industry structure barriers and are significant in impeding the export firms. These barriers are in one or the other way linked with product adaption barriers and they aggravate the problem. Interviewed managers affirmed that there were product adaption barriers that raise from lacks of good quality of raw materials, skilled and experienced human resource, sophisticated machinery and advanced technology, which supported the above problems. The managers also declared that poor reputation of their country and poor image of their products in foreign markets. Successful firms adapt their products to international markets however; due to lack of experience or skills and inadequate technical capacity to adapt the product. It means that less experienced export firms simply export standardized products.

#### **4.1.2.4. Marketing Knowledge and Informational Barriers (8.070)**

Lack of knowledge to locate foreign marketing opportunities (0.802 & 0.300), lack of adequate skill to adapt products to foreign markets (0.755 & 0.243), inability of the firm to self-finance export (0.606 & 0.203) and lack of pricing knowledge for foreign markets (0.582 & 0.176) are the significant marketing knowledge and information related barriers respectively. The respondents have asserted that lack of knowledge to locate foreign marketing opportunities is the most important barrier. This barrier can lead to lack of adequate skill to adapt products to foreign markets and lack of pricing knowledge for foreign markets. In addition, lack of information can negatively affect the capability of the firm to self-finance export.

This finding apparently confirms earlier research such as lack of export knowledge and information is the topmost barriers to exporting (OECD & Okpara & Koumbiadis, 2009 & Pinho & Martins, 2010). Furthermore, Alrashidi's (2011) finding shows that lack of reliable information to locate foreign marketing opportunities and lack of knowledge to adapt product for foreign markets were significant hindrances. Nwachukwu *et al.* (2006) also confirmed that small businesses in developing nations fail to take advantage of export competitiveness due to lack of



information access. Tesfom *et al.* (2006) affirmed that marketing knowledge and information barriers were important problems in Eritrean export firms due to limited export experiences of the firms.

#### **4.1.2.5. Financial Barriers (7.354)**

The high cost of capital to finance exports (0.780 & 0.302) and high value of domestic currency (0.720 & 0.254) are important barriers. Besides, interviewed managers affirmed that lack adequate finance plays as a bottleneck in export businesses. The government's financial support is not adequate and the firms have small owner equity, which leads the financial problem so difficult. Nwachuwu *et al.* (2006) explained that SMEs are generally have limited resources as they face the difficulty in obtaining working capital. This creates a major obstacle in developing export trade activities, and often prevents them from financing their export business activities. Abdullah and Baker (2000) and Tesfom *et al.* (2006) have also explained that financial barriers are one of the major factors, which inhibit the successful export operations of the firms.

#### **4.1.2.6. Exogenous Export Barriers (6.50)**

Three variables of the exogenous export barriers are important in measuring the export business of the firms. These are high freight costs to foreign markets (0.708 & 0.287), lack of private firms providing export services (0.693 & 0.284) and high interest rates (0.590 & 0.221) respectively. According to Tesfom *et al.* (2006), high freight costs to foreign markets, lack of private sector firms providing export services and high interest rates were significant obstacles, which is consistent with the finding of this study. High freight costs to foreign markets enables export firms especially SMEs of developing countries to incur additional costs. For example, cost of transportation (Brooks & Frances, 1991) and transport service and infrastructure (Brooks & Frances, 1991 & Colaiacovo, 1982) were significant export obstacles. Interviewed managers affirmed that the cargo airfreights of Ethiopia airlines, which could be an important issue in order to send and receive goods or components with shorter delivery times, is very expensive.

#### **4.1.2.7. Competition Barriers (6.203)**

The lack of adequate quality of raw materials and strong competition from other foreign producers in potential markets are important with (0.801 & 0.326) and (0.760 & 0.303) factor loadings and factor score coefficient results respectively. Interviewed managers have also said that price fluctuation or sudden price change after negotiation due to long delivery times affect the export competitiveness of the leather footwear industry. This result is consistent with the

finding of some previous research conducted in developing and transition economy countries. For example, Collier and Gunning (1999) identified that firms in developing countries are facing a strong competition in international markets. Besides, price competition, aggressive competitors in the foreign market, lack of competitive prices and fierce competition in export markets were a big hindrance to export business (Fluery, 1986; Cardoso, 1980 & Kaleka & Katsikeas, 1995). Furthermore, Burgess and Oldenboom (1999) have revealed that small firms from developing countries are more vulnerable due to their inadequate financial and human resources, which hampers their collection of plenty information which affect their competitive advantage. Besides, Tesfom *et al.* (2006) has mentioned that competition barriers hampered the export firms in footwear exporters in Eritrea.

#### **4.1.2.8. Logistic Barriers (4.936)**

With a factor loadings and factor score coefficient results, problems in making shipment arrangement and meeting delivery dates (0.751 & 0.445) and lack of ability to supply required quantity on continuous basis (0.672 & 0.371) are significantly affect the export business of the firms in the industry. These barriers exerted tremendous effect on the supply inventory in the oversea markets. The respondents asserted that the impact of the logistic barriers on the export venture of the firms have a negative impact on the export competitiveness of the firms. Previous studies such as Lall (1991) pointed out that logistic related barriers affect a well-designed and manufactured product not to reach the export markets safely, punctually and reliably. The transportation delays, demand fluctuations and unexpected events create shortage of the company's product abroad. Dicle and Dicle (1992) mentioned that strict and time-consuming procedures for imports of manufactured goods also constrain successful export activities. To end with, the logistic barriers significantly affect the export competitiveness of the industry.

#### **4.1.2.9. Product Quality Barriers (4.603)**

With a factor loadings and factor score coefficient results, poor product quality (0.766 & 0.402) and high sensitivity of product to fashion (0.608 & 0.323) are significant barriers of product quality. The barriers greatly affect the export competitiveness of the industry. Product attributes of a firm can influence the sources of competitive advantage (Day & Wensley, 1988), which affects the choice of an offensive or defensive strategy (Cook, 1983). Figueiredo and Almeida (1988) and Cardoso (1980) have pointed out that poor product quality and high sensitivity of products to fashion were hindrance to Brazilian leather-footwear exporters. Besides, Tesfom *et*

al. (2006) identified that product quality barriers in Eritrea were significant in determining export competitiveness and it was partially attribute to poor quality of the raw materials. In general, this barrier is negatively affecting the export activities of the firms.

### Summary of Propositions' Outcome

After conducting the principal component analysis using the orthogonal ration matrix, some proposed factors' name was changed. Conceptually connected items have explained the same factor and accordingly a common name is given. Summary of the outcome of the propositions are present in Table 2.

**Table 2: Summary of the propositions' outcome**

| Prop. | Actual Barriers (After Rotation)    | Proposed Barriers                   | Decision on the Propositions | Items proposed | Items Retained After Rotation |
|-------|-------------------------------------|-------------------------------------|------------------------------|----------------|-------------------------------|
| P10   | Government Policy + Human Resource  | Government policy                   | Supported                    | Gov. = 6       | 5/13                          |
| P3    |                                     | Human Resource                      | Supported                    | HR. = 6        | 5/13                          |
| P4    | Product Adaption                    | Product Adaption                    | Supported                    | 4              | 2/6                           |
| P1    | Marketing knowledge and information | Marketing knowledge and information | Supported                    | 5              | 2/4                           |
| P2    | Financial                           | Financial                           | Supported                    | 4              | 1/2                           |
| P11   | Exogenous                           | Exogenous export                    | Supported                    | 6              | 3/3                           |
| P7    | Competition                         | Competition                         | Supported                    | 2              | 1/2                           |
| P0    | Logistic                            | New barrier                         | Supported                    |                | 0/2                           |
| P4    | Product Quality                     | Product quality                     | Supported                    | 2              | 2/2                           |

Source: Own survey result (2015)

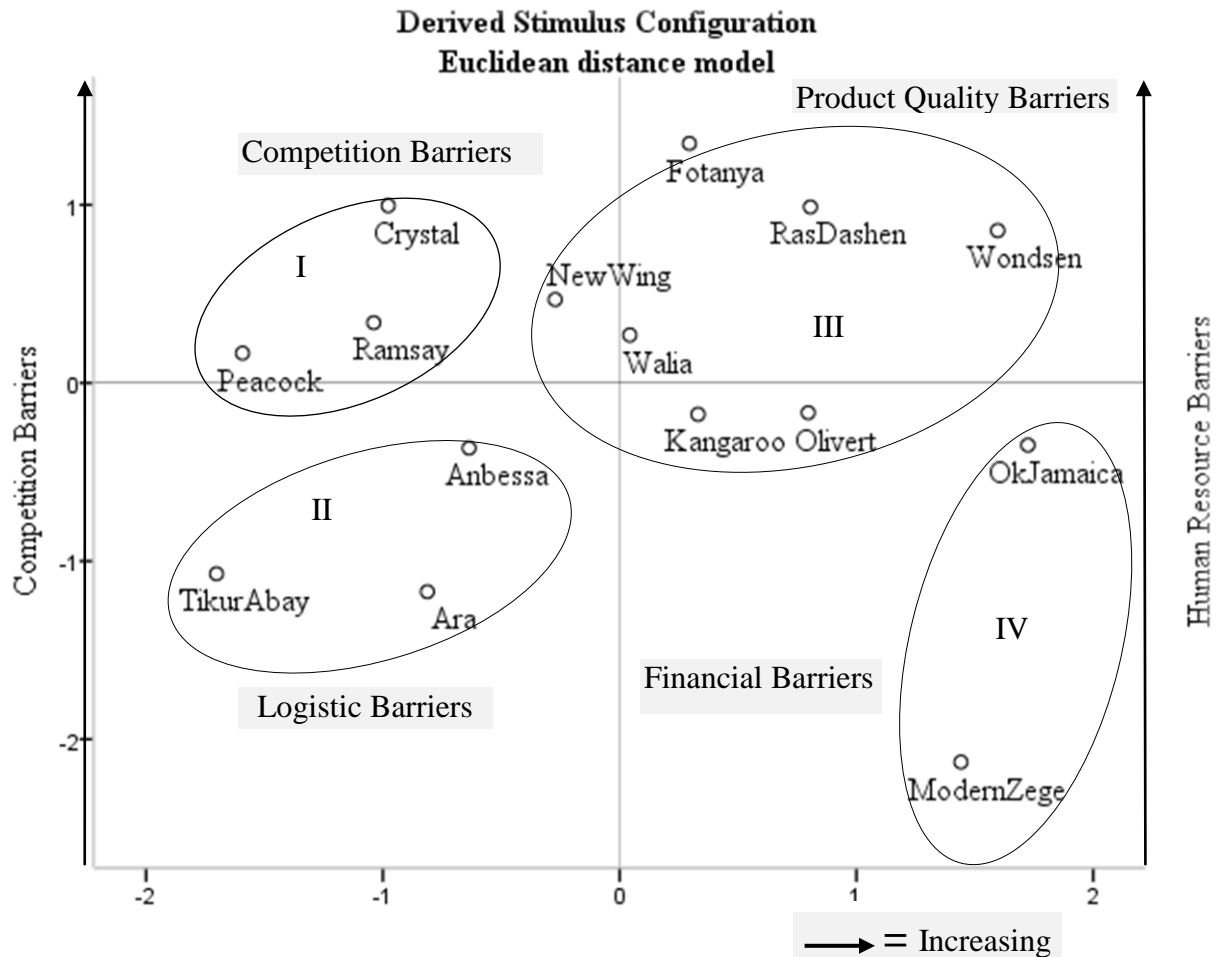
The logistic barriers are new factors that emerged because of the rotation matrix, which denoted with "P0" under the proposition column. The numerators and denominators under "items retained after rotation" column represent the number of items proposed before rotation and the total items after rotation respectively.

### 4.2. MDS Analysis and Result Interpretation

MDS is an exploratory data analysis technique that helps in reducing data into manageable way by condensing large amounts of data into a relatively simple spatial map that relays important relationships in the most economical manner (Mugavin, 2008). Not all export barriers have same degree of effect on the export competitiveness of the exporting firms. It means that some firms are more significantly affecting by certain export barriers than other firms and vice versa. Thus, by applying MDS analysis, four clusters of firms have been constructed as presented in Figure 2.

These clusters of firms will help the decision makers to prioritize the topmost export barriers of each cluster to take action.

**Fig.2. Clustering of Firms**



Source: own survey result (2015)

#### 4.2.1. Competition Barriers (Cluster I)

The firms that belong to this cluster are highly affected by competition barriers i.e. this barrier is the topmost barriers in terms of its negative impact for cluster I firms followed by logistic and product quality barriers respectively. Hence, the management of the individual firms (micro-level) of cluster I need to give priority to solve competition barriers first and then the logistics and product quality problems systematically.

#### 4.2.2. Cluster II: Logistic Barriers

The logistic barrier is the key barrier for firms in cluster II followed by competition and product quality barriers respectively. However, logistic barriers are almost equally important for the

majority of the other firms too. Managers and or owners of the firms, which belong to this cluster, have to take into account the logistic, competition, and product quality problems to solve respectively to improve its competitiveness.

#### **4.2.3. Cluster III: Product Quality Barriers**

The key prevalent barriers, which significantly impeded the firms in this cluster, are the product quality barriers followed by marketing knowledge, information barriers, and human resource barriers. The logistics and competition barriers are among the top barriers for these firms too. Product quality is one of the key elements for firms to enter and survive in the sophisticated international markets. Hence, the individual firms of this cluster need to give due attention to offer quality products for their customers. Then, based on the availability and conditions the firms can solve the other based on the intensity of the perceived barriers.

#### **4.2.4. Cluster IV: Financial Barriers**

Financial barriers were the topmost important barriers, among others, for this cluster firms followed by government policy and exogenous export barriers. Besides, human resource barriers are also important for this cluster too. In general, the intensity of the perceived export barriers is different from cluster to cluster. In general, the export competitiveness of cluster I, II, III and IV exporting firms are highly exposed to competition, logistics, product quality and financial barriers.

### **5. CONCLUSION**

The finding of this study shows that the export barriers investigated are significant in impeding the export competitiveness of the individual firms in particular and the industry in general. The finding of this research affirmed that human resource barrier is important in impeding the export activities of the firms. It is due to but not limited to lack of adequate skilled and experienced human capital. Previous studies such as inadequate export knowledge (Julian & Ahmed, 2005 & OECD, 2009), shortage of export oriented managers (Pinho & Martins, 2010), lack of adequate managerial capital exists (Sonobe & Otsuka, 2006; 2011), and difficulty in hiring specialized workforce (Ortiz et al., 2008). Moreover, the product quality and product adaption barriers are also important. Poor product quality happens due to lack of quality raw materials, lack of recent and advanced machinery, lack of experienced and dedicated workers and low quality concept of managers and owners. With respect to the product adaption barriers, lack of experience and skills and inadequate technical capacity to adapt the product are significant. Due to less experienced

exporting firms, they simply export standardized products. In addition, lack of knowledge to locate foreign market opportunities, lack of pricing information and knowledge to adapt product to the foreign markets are significant barriers of marketing knowledge and information. This is due to but not limited to the governments export strategy, which has a recent history. Moreover, financial barriers are significant due to lack of adequate support of the government and shortage of own working capital of the firms especially small firms lack adequate financial capability.

Furthermore, there are government policy barriers that affect the export competitiveness of the firms in particular and the industry in general. Just to mention few, lack of export proportion programs sponsored by the government, and lack of export promotion programs sponsored by international organizations, inadequate financial support, and infrastructure are important once. Besides, exogenous export barriers are significant in negatively affecting the export performance of the leather footwear-manufacturing firms. For example, high freight costs to foreign markets, lack of private sector firms providing export services and high interest rates are important. The exporting firms are encountering problems to supply required amount of quantity on a continuous basis, delay in meeting the delivery date, and custom procedures. Competition barriers are significant due to lack of adequate quality of raw materials, failure to meet the specified delivery date after taking long time and high transportation cost, lack of infrastructure facilities and custom procedures. Previous studies such as transportation delays and demands fluctuations created shortage of company's product abroad Lall (1991) and strict and time-consuming procedures for imports of manufactured goods (Dicle & Dicle, 1992). Using MDS analysis, four clusters of firms are constructed. Cluster I, II, III and IV firms are tremendously vulnerable to competition and logistic barriers (external forces) and product quality and financial barriers (internal forces) respectively.

### **Limitations and future research directions**

This study has the following limitations. First, the study focused on developing countries that may not used to generalize developed countries. Second, cross-sectional survey design was employed in this study. In this design, it is hard to check changes that could be possible through longitudinal survey. Third, as the study used 5-Likert scale points, it might limit the range of answers that could provide by the respondents. In general, the authors of this research suggested for future research to apply advanced statistical tools for further insights.

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