

**DETERMINANTS AND IMPEDIMENTS IN THE INTERNATIONALISATION PROCESS
OF SMALL AND MEDIUM-SIZED MANUFACTURING ENTERPRISES IN ETHIOPIA**

by

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DECLARATION

I declare that "**Determinants and Impediments in the Internationalisation Process of Small and Medium-sized Manufacturing Enterprises in Ethiopia**" is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

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20 JUNE 2015

DATE

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ABSTRACT

The purpose of this study was to investigate internationalisation of Ethiopian SMEs by examining internal and external factors that motivate or restrict internationalisation process and the impact of internal and external barriers on SMEs export performance. The small and medium sized enterprises (SMEs) sector in Ethiopia is a significant group within the economy in terms of firm numbers and total employment. However, the SMEs sector's share of exports is disproportionately small, which raised considerable research concerns. Firm export propensity and export performance were the dependent variables and export stimuli and barrier factors were used as explanatory variables. The study was conducted through mixed research design. A questionnaire was administered to 90(36 exporting and 54 non-exporting) SMEs in Leather and Leather Products Industry in Addis Ababa selected through stratified random sampling. In order to complement survey results nine (4 exporting and 5 non-exporting) SMEs were selected through critical case purposive sampling and an in-depth interviews were conducted. Statistical package for the social sciences (SPSS 20) was used to analyse the quantitative data whereas, qualitative data were analysed manually. Analytical techniques used were, Chi-square test of independence, Spearman rank order correlation, factor analysis, binary logistic regression analysis and multiple regression analysis. The statistical results of binary logistic regression analysis and chi-square tests indicated that managerial factors, internal marketing factors and foreign government related factors, firm ownership and size are the most significant motivators of SMEs internationalisation in Ethiopia. On the contrary the result showed that, logistics problem, insufficient finance, functional barriers, lack of export knowledge and information, procedural barriers and international trade barriers are the factors hindering it. Further analysis was conducted to examine the impact of export barriers on performance of firms. The result of multiple regression analysis indicated that, export barriers significantly and negatively affect export performance. The overall results revealed that explanatory variables used in the analysis significantly predict the dependent variable at 95% confidence level. Considering these results numerous implications for theory, practice, and future research were recommended. Finally, the study concluded that internationalisation of SMEs has to be encouraged by mitigating both internal and external barriers identified in this study.

Key terms: *Internationalisation, Internationalisation process, behavioural theory of internationalisation, resource based approach, international entrepreneurship, motives of internationalisation, internationalisation barriers, SMEs, Exporting, Ethiopia.*

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LIST OF ACRONYMS

ADB	African Development Bank	MoA	Ministry of Agriculture
AGOA	African Growth Opportunity Act	MoTI	Ministry of Trade and Industry
FTA	Free Trade Arrangement	NBE	National Bank of Ethiopia
AU	African Union	RBT	Resource based theory
BDS	Business Development Services	SSA	Sub-Saharan Africa
CSA	Central Statistics Authority	PIC	Productivity improvement center
GoE	Government of Ethiopia	FDI	Foreign direct investment
FDRE	Federal Democratic Republic Of Ethiopia	OECD	Organisation for Economic Cooperation & Development
FeMSEDA	Federal Micro and Small Enterprise Development Agency	UNIDO	United Nations Industrial Development Organisation
ReMSEDA	Regional Micro and Small Enterprise Development Agency	EBA	Everything But Arms
GDP	Gross Domestic Product	FAO	Food and Agriculture Organisation of the United Nations
ECBP	Engineering Capacity Building program	SMEs	Small and Medium Size Enterprises
ELFF	Ethiopian Leather Footwear Factories	LLPTI	Leather and Leather Products Technology Institute
COMESA	Common Market for Eastern and Southern Africa	LLPI	Leather and Leather Products Institute
MOFED	Ministry of Finance and Economic Development	LIDI	Leather Industries Development Institute
HASIDA	Handicrafts & Small-Scale Industries' Development Agency	GTP	Growth and Transformation Plan
EU	European Union	EDRI	Ethiopian Development Research Institute
ELIA	Ethiopian Leather Industries Association	GRIPS	National Graduate Institute for Policy Studies
FDDI	Footwear Design and Development Institute	WTO	World Trade Organisation
ETFLGMA	Ethiopian Tanners Footwear & Leather Goods Manufacturing Association	UNESCO	United Nations Education, Science & Cultural Organisation
NTBs	Non-tariff barriers	UNCTAD	UN Conference on Trade & Development
EE	Enterprise Ethiopia	GATT	General Agreement on Tariffs & Trade
QSAE	Quality and Standard Authority of Ethiopia	IB	International business
ECF	Ethiopian competitiveness Facility	GSP	General System of Preference
MFN	Most Favored Nation	EAC	East African Community
PSD CBP	Private Sector Development capacity Building project	PEPE	Private Enterprise Programme Ethiopia

CHAPTER 1

RESEARCH ORIENTATION

1.1 INTRODUCTION

This chapter presents an overview of the study in context with a background sketch of the topic that sets the stage for the problem statement. Accordingly, the essence of the study puts into perspective with presentation of overview of the study, background of the study, problem statement, research questions and hypotheses, aims, objectives, rationale of the study and significance of the study. Thereafter, a brief overview of the research methodology is given along with scope and assumptions of the study. Finally, outline of the study is noted and the chapter ends with chapter summary.

1.2 INTRODUCTION TO THE RESEARCH STUDY

Internationalisation and international entrepreneurship, among small and medium-sized enterprises, is a topic of considerable relevance, principally owing to the observed growth effects of cross border venturing, and the demonstrated capacity of SMEs to drive economic development at national, regional, and global levels. This realisation was at the heart of an OECD study on removing barriers of SME access to international markets, which provided general findings on the major barriers to SME internationalisation as perceived by SMEs and policy makers in OECD member economies (OECD, 2008). The internationalisation process of many small and medium-sized (SMEs) manufacturing firms in Ethiopia is hindered by various problems. Many nations have acknowledged the value of small and medium sized enterprises (SMEs). Ethiopia is not an exception, as establishment of SMEs agency and the recent phenomena of industrial cluster of footwear manufacturers in Addis Ababa are exemplary in this regard (UNIDO, 2008).

The benefits of SMEs to any economy are easily noticeable, and they include: creation of jobs at relatively low capital cost, a vehicle for reducing income disparities, and development of a pool of skilled and semi-skilled workers. Researchers argue that promoting SMEs has been described as one of the best strategies for achieving national development goals such as economic and industrial growth. Although a great deal of research on SMEs and export development has been conducted, such as the works of (Crick, 2007; Kocker and Buhl, 2008; Johanson and Vahlne, 2009; Stanton, *et al.*, 2011), these studies have been primarily conducted in the west.

Researches on SMEs internationalisation in the context of Ethiopia are hopelessly scarce. Existing research studies in Ethiopia deals with export performance of large firms and thus, there is a knowledge gap in our understanding of SMEs internationalisation in the context of Ethiopia. Since SMEs are not an extension of larger firms, their internationalisation behaviour as well as existing export drivers and barriers must be studied and the result could be used by policy makers and practitioners in Ethiopia. The present study was an attempt to bridge existing knowledge gap in the area of SMEs internationalisation in Ethiopia. The main constructs in the study focused on motivations for SME internationalisation, internationalisation barriers common to SMEs in Ethiopia, national and sectoral insights on SME internationalisation barriers, and SME internationalisation support programs in Ethiopia.

1.3 RATIONALE AND THEORETICAL JUSTIFICATION OF THE STUDY

To understand the internationalisation issue for SMEs, an extensive literature review was carried out by the researcher. Internationalisation of Ethiopian SMEs is a new research area, as most of the literature favour developed and industrialised countries, and give little empirical evidence and little attention to the developing economies. Few of the empirical findings that deal with internationalisation of SMEs from developing economies are works of (Kuada and John, 2007; Shamsuddoha, *et al.*, 2009; Singh, *et al.*, 2010; Verhoef & Grietjie, 2011). Even if these authors viewed SMEs internationalisation from

different perspectives yet they didn't come up with a comprehensive model that demonstrates SME internationalisation behaviour in developing countries. The researcher assumed that some of this knowledge is not always appropriate enough and students of developing countries like Ethiopia, and others should have access to a more local perspective of these topics. To maintain the required depth in to the issue, the scope of this study was limited to one industry, Leather and Leather Products Industry in Ethiopia. The researcher assumed that the result of this study could contribute a lot by adding empirical evidence that will serve general, academic and policy purposes.

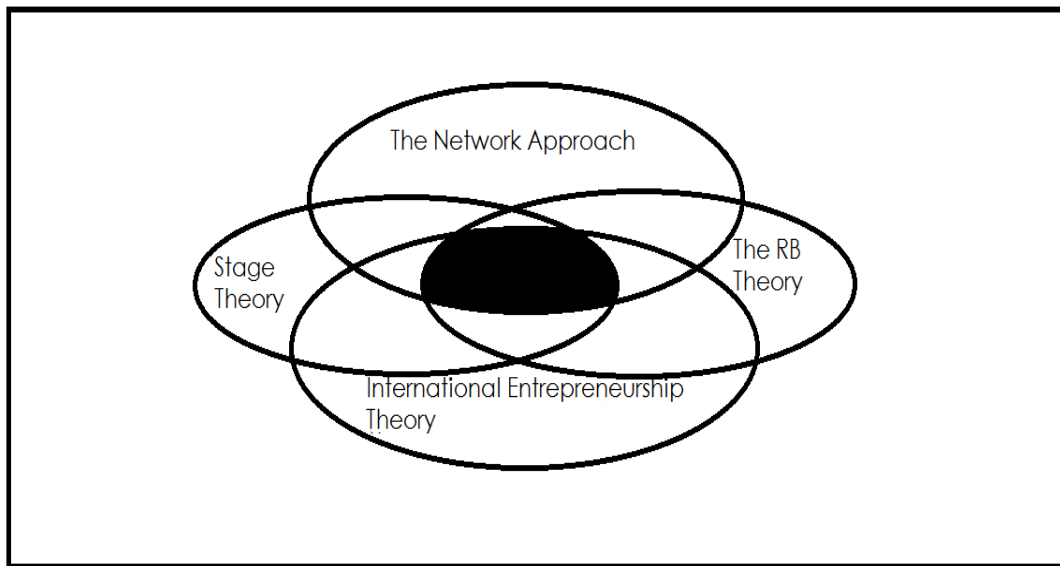
Furthermore, the researcher wants to provide justification as to why researching SME internationalisation in the manufacturing sector in general, and in Leather and Leather Products Industry in Ethiopia, is worth attention. It is known it, there are more animals producing hides and skins in Ethiopia than in any other countries of Africa. With an estimated 40 million head of cattle, 30 million sheep and 20 million goats, it would appear that, there is little to stop Ethiopia from playing a major role on the international market for leather products. In fact, hides and skins represent one of Ethiopia's largest earners, after coffee, oil seeds and spices. It produces some of the world's most exclusive leathers: Cabretta (used, for example, in golf gloves), Bati (soft suede) and Selallie (high quality sheep skin) (UNIDO, 2008).

A new project is being launched in Ethiopia that will concentrate on the upgrading of the footwear and leather products industry, with particular emphasis on small and micro industries. More than half of the world's leather products are used in footwear and the market is expanding year to year (UNIDO, 2008). This implies that researching on SMEs internationalisation in the context of Ethiopia is a timely issue to deserve attention. Accordingly, this thesis claims that understanding the behaviour of SMEs internationalisation and associated barriers in the context of Ethiopia will contribute a lot for policy makers, practitioners and researchers.

As far as theoretical justification is concerned, Stoian (2006), HaThi (2009), and Legesse (2012) anticipate that the internationalisation process crosses diverse theories. The literature identifies various views on firms internationalisation, such as: 1) Process and Stage Models; 2) Network Perspective; 3) the Born-Global or International New Venture models; 4) Resource-based View; and 5) the International Entrepreneurship concept (Andersson, 2011). These theories have all contributed to the contemporary understanding of SME Internationalisation. Despite the variety of understandings, SME internationalisation theory is still inconclusive (Mohamed, *et.al*, 2010; Sommer, *et al.*, 2011). Many argue that this is a result of absence of a holistic approach based on a common conceptual framework and because internationalisation is a complex area of research (Zucchella, *et.al*, 2007; Ruzzier, *et.al*, 2007; Aihie, 2009; Garcia, 2009). Accordingly, it is unlikely that one particular view can fully explain the process; therefore, Casillas, *et al.* (2009) recommend that researchers have to take a more integrated and inclusive approach in researching the subject.

To sum up the aforementioned rationalisation, with the overall purpose to enhance the understanding of internationalisation processes of SMEs in Ethiopia through the lenses of motivating and hindering factors, and to identify what features characterize these processes, four main theoretical perspectives on internationalisation of firms are integrated as a theoretical platform of this current study: the behavioural perspective in a form of internationalisation process theory, the relational perspective in the form of network theories on internationalisation, the competitiveness perspective through resource based view and entrepreneurial approach in the form of opportunity searching with the overall purpose to enhance the understanding of internationalisation processes of SMEs in Ethiopia. The following diagram therefore shows major theories covered in this thesis:

Figure 1.1: Venn diagram Illustrating Theoretical Base of this Current Study



Source: Author's own construction from literature (2015)

Integration of different theoretical views was rationalised in the present study due to the assumption that it would provide a better understanding of SMEs internationalisation process in developing economies than the fragmented explanation on specific components as it was done in previous studies. Detailed discussion of these theoretical models is discussed in chapters 3 and 4 of this study.

1.4 PROBLEM STATEMENT

The benefits of SMEs to any economy are easily noticeable and they include creation of jobs at relatively low capital cost, a vehicle for reducing income disparities, and development of a pool of skilled and semi-skilled workers. Researchers argue that, promoting SMEs is considered to be one of the best strategies for achieving national development goals such as economic and industrial growth (ibid). Although a great deal of researches on SMEs and export development have been conducted, including works of Crick (2007), Kocker and Buhl (2007); Johanson and Vahlne (2009), and Stanton, *et al.* (2011), these studies were conducted in the west. Existing research studies in Ethiopia deals with export performance of large firms; and thus, there is a knowledge gap in

our understanding of SMEs internationalisation in the context of Ethiopia. As shown in extant literatures reviewed (see chapters 3 and 4), SMEs are not an extension of larger firms, their internationalisation behaviour as well as existing export barriers must be studied and the result will be used by policy makers and practitioners in Ethiopia.

This study was an attempt to bridge existing knowledge gap in the area of SMEs internationalisation in Ethiopia. The central theme of the study focused on motivations for SME internationalisation, internationalisation barriers common to SMEs in Ethiopia, national and sectoral insights on SMEs internationalisation barriers, and SMEs internationalisation support programs in Ethiopia.

This study aimed at investigating SMEs internationalisation in Ethiopian manufacturing industry through the lenses of drivers and impediments by focusing on one industry sector. Earlier researchers (Girmay, 2006; Abdurehman, 2012; Melaku 2013; Tamirat, 2014) focused only on export barriers or challenges with less attention given to those internal and external factors that motivate firms to start international involvement. Also, the role of entrepreneurs as opportunity seekers in internationalisation process of SMEs was virtually ignored in earlier researches dealings with export barriers and their impact on export performance. This study also included aspects of international entrepreneurship in the process of SMEs internationalisation from developing countries like Ethiopia.

This in itself is sufficient to merit the study of Leather and Leather Products Industry. Moreover, one cannot confidently say that Ethiopia has a large competitive advantage in the leather industry because it ranks number one in Africa and 10th in the world with respect to livestock population. In addition, the SMEs working in the Leather sector eventhough working mainly with backward technology has built up some advantages over time, such as skills, networks, infrastructure and institutions. Aboveall the sector provides ample employment, and has the potential of increasing it substantially in global arena.

Nevertheless, Ethiopian exporters encounter different challenges when planning to join export market. Even though the country is geographically at ideal location for different markets, the competitiveness of firms in global market is still problematic. Problems of defined brand, product diversification and foreign currency shortage are still one of the critical factors to be considered. Existence of other strong competitors in the leather industry like India, Italy and china makes competition for Ethiopian firms a further more difficult task. Shortage of working capital, finance and inter-firm cooperation as well as lack of international marketing knowledge added the burden to Ethiopian SMEs (Ciuriak, 2010; Azmera, 2013).

Internationalisation of firms has been extensively studied by different scholars in the fields of international business, entrepreneurship and international marketing. However, an area, which has obtained fairly limited attention, is the internationalisation process of small and medium sized enterprises (SMEs) in the context of developing economies in the 21st century. A glance at the contextual justification of this current study reveals that since few studies had examined the internationalisation process in developing markets and countries in the process of fast industry expansion like in Ethiopia, and this has resulted in limited evidence or knowledge of the processes that contributes to SME Internationalisation development (Debele, 2002; Alexander & Warwick, 2007; Autio, *et al.*, 2007; Camara & Simoes ,2008). Researchers such as Debele (2002), Crick (2007), Senik (2010) and Jaeger (2008) recognise that, the adopted Western-based management practices within African context differ because of different business and culture conditions. Therefore, arguably, the evidence is not fully suited to understanding the Ethiopian context. This is true due to the fact that Ethiopia practices different values, beliefs, politics and cultures. Therefore, research within the Ethiopian context can help to establish if existing western models are in any way applicable.

The present researcher had gone through existing empirical works by focusing on SMEs in Ethiopia. Although empirical evidence on Ethiopian SMEs and

international activities had been identified in previous studies, yet, SME internationalisation was not a point of attention. Instead, internationalisation related issues such as exporting, policy, culture, management problems and the challenges in exporting and the challenges of industrial linkages programme were studied (Debele, 2002; UNIDO, 2008; USAID, 2009; William & Ariell, 2010). In that, inclusive evidence of internationalisation process within Ethiopian SMEs in manufacturing industries is still lacking.

The present study was based on the theoretical framework of the process model of firm internationalisation, the Network approach, the resource based approach and international entrepreneurship theory. The researcher strongly argued that, an integration of these multiple theories is necessary because of the complexity of the SMEs phenomena. A single theory by itself cannot provide a satisfactory explanation in understanding the dynamics of SMEs in developing economies and the pressures faced by firms especially in international market. SMEs have unique characteristics that make research on them attention worthy. Furthermore, this research takes into consideration the particular characteristics of developing economies, which are playing an increasingly important role in the global economy.

Most of the recent empirical studies on SMEs internationalisation emphasise the traditional model (the Uppsala process model of firm internationalisation besides its criticism (Crick, 2007; Rundh, 2007; Young, 2007; Ghauri, *et.al.*, 2009; Kuivalainen, *et.al.*, 2009; Lopez, *et.al.*, 2009; Johanson and Vahlne, 2009; Nummela, *et al.*, 2010; Stehr, 2010; Fletcher, 2011; Kuivalainen, *et.al.*, 2012). Other researchers emphasise the importance of the Network approach to SMEs internationalisation instead of the process oriented Uppsala model. These researchers argue that social network plays a great role for SMEs internationalisation due to the fact that SMEs lacks the required resource to manage the process of internationalisation (Ibeh, 2006; Kocker, and Buhl, 2007; OECD, 2008; Zhou, 2009; Christopher, 2010; Kneller, *et al.*, 2011; Sass, 2012). The works of these researchers reveals the existence of a gap especially in the areas

of integrating different firm internationalisation models as one comprehensive model.

The present researcher argues that studying SMEs internationalisation in view of integrated approach contributes in a way that it provides important information for government agencies, policy makers, managers and researchers by highlighting a number of key issues that affect Ethiopian SMEs' future international expansion in the global market. The study is also important because it represents an attempt to rigorously identify successful evidence of SMEs internationalisation as well as export oriented entrepreneurs who made decision to internationalise for their firms.

The study was firm level analysis. The dependent variables which were addressed in this study included firm export propensity and export performance. Whereas, internal and external internationalisation driver and barrier factors, managerial and organisational factors were used as explanatory variables. These key constructs helped the researcher to understand SMEs internationalisation process in Ethiopia, and based on empirical findings the researcher forwarded significant insights that had not been addressed in the area of firm internationalisation in Ethiopia. Accordingly, the research problem addressed in this current study was formulated as:

What is the pattern of Small and Medium-sized manufacturing business internationalisation process and how SMEs internationalisation is hindered by export barriers within manufacturing industries in Ethiopia?

1.5 BASIC RESEARCH QUESTION AND INVESTIGATIVE QUESTIONS

The main research question of this study was:

What is the pattern of Small and Medium-sized manufacturing business internationalisation process and how SMEs internationalisation is hindered by export barriers within manufacturing industries in Ethiopia?

In order to address the research problem by answering the main research question, the patterns, motives, barriers faced by Ethiopian manufacturing firms

in Leather and Leather goods Industry and the role of Ethiopian Government in promoting internationalisation were described and analysed with the aid of the following five investigative questions:

Investigative Question 1

What are the driving forces for the internationalisation process of SMEs in manufacturing industries in Ethiopia?

The first sub question aimed to identify internal and external factors that motivate firms to start internationalisation activities. The importance of these pre-export factors was established in light of the push and pull effect motives have had on internationalisation decisions.

Investigative Question 2

What patterns and internationalisation strategy do Ethiopian manufacturing SMEs follow?

Firm internationalisation must be viewed through different lenses of patterns and strategies. The aim of this question was to identify and analyse internationalisation behaviour of Ethiopian SMEs with the perspectives of traditional and/or rapid internationalisation patterns. This was done through examining and looking into internationalisation patterns and market entry modes adopted by internationally active firms.

Investigative Question 3

What are the factors that hinder internationalisation process of SMEs in manufacturing industries in Ethiopia?

The purpose of this question was to establish internal and external factors that hinder internationalisation process of firms. This will in turn contribute to get deep understanding of export activities and associated challenges, by providing guidance for firms and policy makers in the area. In the current study, the importance of SMEs internationalisation barriers was established by considering the influence barriers have had on international market entry and expansion decisions made by respective firms.

Investigative Question 4

What is the impact of internal and external internationalisation barriers on export performance of Manufacturing SMEs in Ethiopia?

The purpose of this sub question was to establish the impact of internationalisation barrier factors on internationalisation performance of SMEs. By correlating performance indicators and barrier factors the most critical barrier can be identified and this will help in formulating support strategies so as to make Ethiopian SMEs more competent in the international arena.

Investigative Question 5

What government support programs are there to promote internationalisation of Manufacturing SMEs in Ethiopia?

The purpose of the final sub question was to establish the role Government can exercise to aid internationalisation process of firms before, during and after firms have involved in internationalisation. This will in turn contribute to internationalisation of SMEs by making different supporting agencies to formulate need based intervention and export related capacity enhancement programs instead of the existing one-size-fits-all export supports mostly targeted large firms.

1.6 OBJECTIVES OF THE STUDY

The primary aim of this study was to investigate firm internationalisation motives and barriers of manufacturing SMEs in the Leather and Leather Products Industry in Ethiopia.

1.6.1 SECONDARY RESEARCH OBJECTIVES

The secondary research objectives for this study were:

- To explore determinant factors those motivate business internationalisation among Ethiopian SMEs in the manufacturing industry.
- To identify the pattern and mode of entry followed by Ethiopian SME's in the manufacturing industry to expand their business in foreign markets.

- To determine barrier factors that hinder internationalisation of manufacturing SMEs in Ethiopia.
- To examine the impact of internationalisation barriers on SMEs' export performance.
- To determine the relationship between some critical factors and export status of Ethiopian manufacturing SMEs.
- To identify possible differences between SMEs managers' perspectives towards government export incentive packages, ranging from non-exporter to exporter.
- To recommend an integrated model that explains SMEs internationalisation behaviour for the manufacturing sector in Ethiopia.
- To identify future research areas in the field of firm internationalisation with special emphasis on SMEs.

1.7 SIGNIFICANCE OF THE STUDY

The recommendations drawn from this study as seen in Chapter 8 will create awareness about the concept, principles, and benefits of SMEs internationalisation in the Ethiopian manufacturing industry and specifically to Leather and Leather goods industry. Managers of small and medium sized manufacturing firms and owners might also use the findings of this study to evaluate their internationalisation status, determine their internationalisation strategy, and create networks with suppliers and other competitors in the industry. Specifically, the result of this study lies in servicing the following purposes:

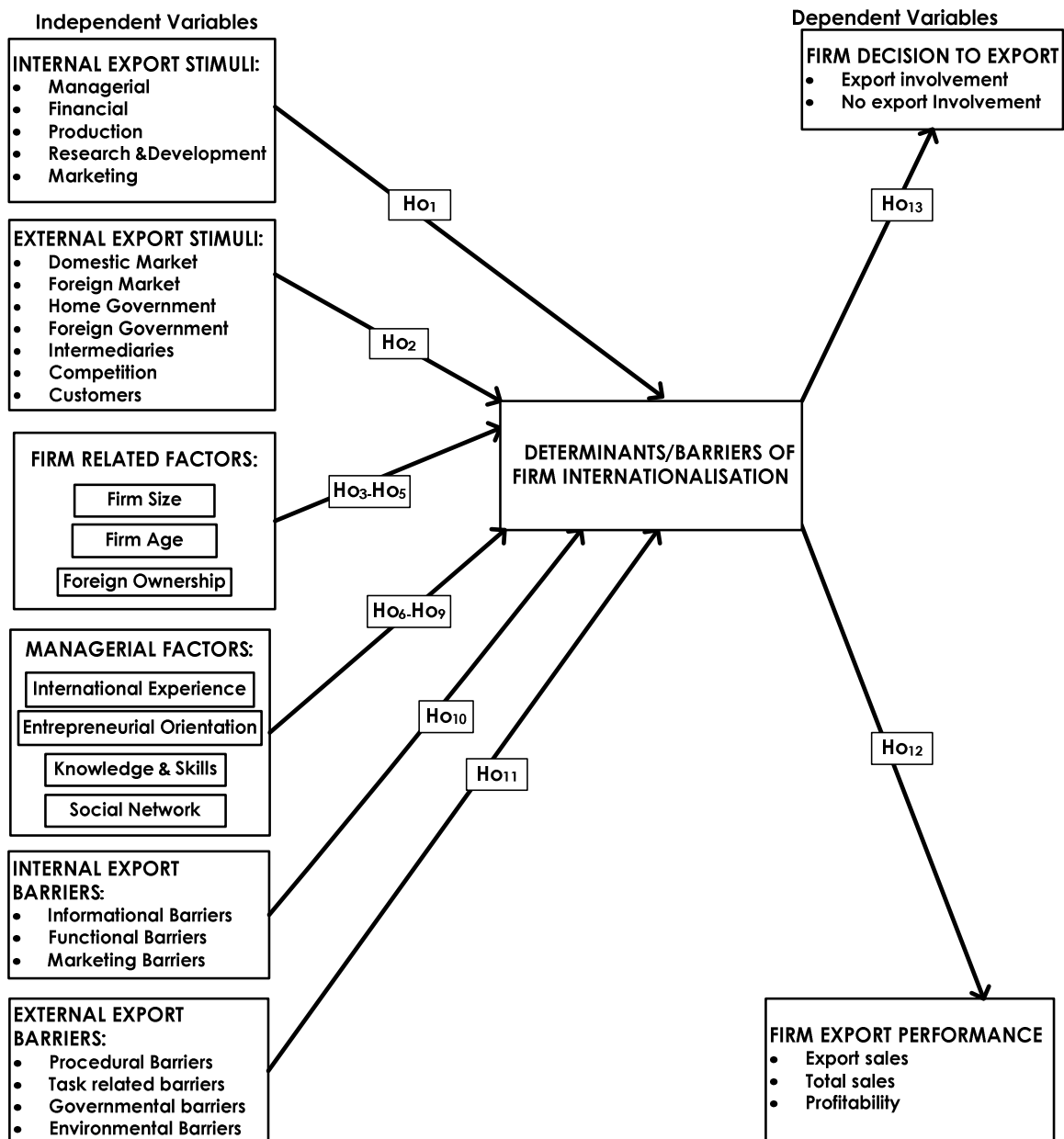
- To fill the existing theoretical debate and empirical gaps in SMEs internationalisation literatures from the perspective of developing countries.
- To provide insights to both exporters and non-exporters, as well as to decision makers.

- To provide policy inputs directed towards improvement of internationalisation performance at the firm level and may be reflected in the nation's macroeconomic environment because industrialisation in Ethiopia is gaining a lion's share in terms of policy issues.
- To contribute to knowledge about the role of social networks and entrepreneurial orientation in the age of globalization for firms in the manufacturing industry.
- To help how to design internationalisation strategy from the perspective of social network, incremental market knowledge and international entrepreneurship for the target firms and others.
- To provide ways for export policy makers to manage the transition from agriculture-led-economy to industrial-led one.
- To provide reference and stepping stone for those educational and other academic institutions especially in Ethiopia to pursue further study in the area of firm internationalisation.
- The study will contribute a lot to carry out export promotion, the role of industrial cluster in SMEs internationalisation by identifying the major barriers that hinder SME international competitiveness.

1.8 THEORETICAL MODEL OF THE STUDY

The initial literature study revealed a number of internal and external factors that can positively and negatively affect the internationalisation behaviour of the Ethiopian Manufacturing firms. From this initial exploratory, the researcher drew a frame of reference that guided the course of this study. Figure 1.2 shows hypothesised model that guided the course of this study.

Figure 1.2: Hypothetical model of the study



Source: Author's Own Construction (2015)

The following are the null hypotheses to be tested in this study:

Ho₁: Internal export stimuli as measured by managerial, financial, production, research and development and marketing related factors are not positively associated with the likelihood of the internationalisation of SMEs in Ethiopia.

Ho2: External export stimuli as measured by domestic market, foreign market, foreign government, intermediaries, competition and customers related factors are not positively associated with the likelihood of the internationalisation of SMEs in Ethiopia.

Ho3: There is no significant association between firm size as measured by number of employees and the likelihood of its internationalisation.

Ho4: There is no significant association between firm age and the likelihood of its internationalisation.

Ho5: There is no significant association between foreign ownership of firm and the likelihood of its internationalisation.

Ho6: There is no significant association between international experience of Managers and the likelihood of firm internationalisation.

Ho7: There is no significant association between Manager's international orientation and the likelihood of firm internationalisation.

Ho8: There is no significant association between manager's knowledge and skills and the likelihood of firm internationalisation.

Ho9: There is no significant association between manager's social network and the likelihood of firm internationalisation.

Ho10: Internal export barriers as measured by informational, functional and marketing related factors are not negatively associated with the likelihood of SMEs internationalisation in Ethiopia.

Ho11: External export barriers as measured by procedural, task, governmental and environmental related factors are not negatively associates with the likelihood of SMEs internationalisation in Ethiopia.

Ho12: There is no significant relationship between the extent of internal and external export barriers and the level of SMEs internationalisation performance in Ethiopia.

Ho13: Internationalisation behaviour of Ethiopian SMEs in manufacturing industries cannot be explained by internal and external export motives and barriers.

1.9 SCOPE AND DEMARCATION OF THE STUDY

The study was a firm level analysis of internationalisation process of SMES in the manufacturing industries in the context of Ethiopia. Not all manufacturing industries were included in this study. In order to maintain the depth in to the area of investigation, only one industry was used to obtain empirical data. The leather and leather products industry was selected for its being one of the priority sectors with more export oriented firms. As to the geographical demarcation for the study concerns, the area covered in this current study is Addis Ababa City, it was chosen due to the fact that 75% of leather and leather products manufacturers are found in the capital (Addis Ababa).

The scope of the study was further delimited to Ethiopian small and medium-sized manufacturing (based on CSA's 2008 industry classification in Ethiopia) enterprises working in leather and leather goods industry that are registered as a public or a private company and are classified as small and medium scale manufacturing industries in CSA data base. International companies doing business in Ethiopia are also included in the study for comparison purposes.

The empirical section of this study was also delimited to SMEs exporting (outward internationalisation).The process of inward internationalisation (e.g. import activities) and foreign direct investment (FDI) was not the focus of this study. The empirical delimitations refer to the companies and their managers and owners that provided empirical data and government agencies directly related to industrialisation policy and export promotion in Ethiopia. Companies included in this study produce leather and leather goods in Ethiopia and comply with the definition of SMEs in the context of Ethiopia as seen in chapter 2 of this study. The theoretical delimitations defined for this research related foremost to internationalisation theories and SME-based theories of Uppsala model, resource based approach, network theory and theory of international entrepreneurship.

1.10 OVERVIEW OF RESEARCH DESIGN AND METHODOLOGY

A research design refers to “the logic that links the data to be collected to the initial questions of a study” (Yin, 2009). The following sub-sections discussed the specific philosophical stance adopted for the current study, research approach, research strategies, time horizons and data collection methods that are applied in this study and collectively used to inform the research design. A detailed discussion of each is presented under chapter 6 of this thesis.

1.10.1 THE RESEARCH PHILOSOPHY

“The design of a study begins with the selection of a topic and a paradigm. Paradigms in the human and social sciences help us understand phenomena” Creswell (2007): Mixed research paradigm (pragmatism) was adopted for this study. According to Saunders *et al.*, (2003), the research philosophy depends on the way you think about the development of knowledge. Thus, in terms of knowledge claim, this study was guided by the assumptions of Pragmatic view points by mixing both inductive and deductive reasoning in one study, which further widened the gap since majority of existing works are based on positivist and post-positivist knowledge claims separately either qualitative or quantitative. Moreover, this current study was guided by multidimensional perspectives because existing researchers viewed SMEs internationalisation in light of export barriers without considering why SMEs start international involvement. The current study fulfills the gap of studying a phenomenon only from one angle by investigating both motivating and barrier factors of SMEs internationalisation in developing economies using empirical data from Ethiopian SMEs in the leather industry.

1.10.2 RESEARCH DESIGN

A research design can be defined as a framework or blue print for a research study which specifies the methods and procedures for collecting and analysing the required information (Hair, *et al.* 2006, 2010; Malhotra, 2007). The choice of

proper research design is crucial to ensure that the study will provide relevant information to the research objectives.

Several recent studies on SME internationalisation reviewed by the researcher, had employed quantitative large scale surveys (Ozkanli, *et al.*, 2006 ; UKTI, 2006; Smith, *et al.*, 2006; Vivekanandan & Rajendran, 2006; UPS, 2007 ; Lopez, 2007), qualitative case studies (Stonian, 2006; Ojala & Tyrvaïnen, 2007; Terjesan, *et al.*, 2008 ; Camara & Simoes, 2008) and mixed methods (Crick, 2007; Riding, *et al.*, 2007 ; Rundh, 2007 ; Kocker & Buhl, 2008 ; Orser, *et al.*, 2008).

Thus, based on existing methodological gap between previous studies and recent one as mentioned above, both quantitative and qualitative strategies were applied in this study. Mixed method research is an approach to inquiry that combines or associates both qualitative and quantitative forms. It involves philosophical assumptions, the use of qualitative and quantitative approaches in different stages of the research process and the mixing of both approaches in a study. Thus it is more than simply collecting and analysing both kinds of data. It also involves the use of both approaches in tandem so that the overall strength of a study is greater than either qualitative or quantitative research (Creswell & Clark, 2007).

Therefore, adapting Leech and Onwuegbuzie (2009), three-dimensional typology of mixed methods designs, this study is partially mixed sequential mixed research design approached from pragmatism view point. Multiphase Sequential exploratory design is a research design adopted from Creswell (2011) for the empirical phases of this study.

1.10.3 RESEARCH METHODOLOGY

The research methodology is "the general plan of how you will go about answering the research question(s) you have set" (Saunders *et al.*, 2003). Therefore, in this study, complementary methodologies of questionnaire based survey and multiple case studies were employed for this study.

1.10.4 DATA SOURCES

Primary data through survey questionnaire and semi-structured interview were gathered from exporters, non-exporters, and export promotion agencies. This is in line with the suggestion of Yin (2009) which reads as: "no single source has a complete advantage over all others". The different sources are highly complementary, and a good scientific inquiry should use as many sources as possible. He further suggested that, the validity of scientific study increases by using various sources of evidence.

Self-managed questionnaire of close ended questions by adopting 5 point Lickert scale was used for the survey. However, the interview questions were framed in semi-structured way with open-ended questions to allow flexibility in gathering data that cannot be addressed by the questionnaire. This was due to the fact that the various data collection modes are not mutually exclusive. Rather, they can be employed in a complementary fashion to build on each other's strengths & compensate for each other's weaknesses (Yin, 2009; Creswell, 2011). In addition to primary sources, secondary sources of information were used including lessons drawn from earlier literatures on the same issue.

1.10.5 POPULATION AND SAMPLING TECHNIQUES

By applying the key informant approach, SMEs manager/s and or owner/s were contacted to fill in the survey questionnaire and to give interviews. Thus, respondents were senior officers/executives/owners in charge of export management practice of the target companies who have an experience on the operation and management of internationalisation practice and challenges faced in their organisation, such as general managers of the companies, marketing managers and strategic planners. The researcher assumed that these personnels have enough knowledge to comprehend and can respond to questions concerning internationalisation practices and barriers faced in their respective companies. Therefore, 90 SMEs were involved in the survey phase of this study. In addition 9 SMEs were participated during personal

interview. Detail issues of sampling procedures is discussed in methodology part.

1.10.6 DATA COLLECTION METHODS

The required primary data for this thesis were collected through survey questionnaire and semi-structured interview protocols. In order to reduce subjectivity due to a choice of a particular indicator, each question was developed in a particular way so that no single measurement was applied. In other words, different types of answers were presented in order to improve the reliability of responses given by respondents. The survey instrument was reviewed by experts of international business, entrepreneurship and marketing strategy and pre-tested on some managers and marketing managers to maintain the levels of clarity expected. All questions were matched with the appropriate factors that motivate or hinder SME internationalisation. Modifications were made based on the pre- test results.

1.10.7 DATA ANALYSIS AND HYPOTHESES TESTING

Since the aim of this research was to explore, describe and explain the process of SMEs internationalisation, different analytical techniques were applied. Data analysis process is a way to discover “patterns, coherent themes, meaningful categories, and new ideas and in general uncovers better understanding of a phenomenon or process” (Creswell, 2007). Descriptive analyses of mean and frequencies complement inferential statistics of both parametric and non-parametric statistics (see chapter 6 for details). Qualitative part of the data was analysed through content analysis, pattern matching and logical narrations.

1.11 KEY ASSUMPTION OF THE STUDY

The unit of analysis is the firm. However, by applying the key informant approach, it is the owner/key decision-maker that answers all questions related to the firm. Thus, the perception of the owner/key decision maker (i.e. the informant) represents the “perception” of the firm. Existing research concludes

that the key informant approach does not generate any significant respondent errors. The survey instrument was targeted specifically at CEOs, managing directors and/or owners, who are considered as the most knowledgeable informants regarding internationalisation issues in SMEs. Thus, it was assumed that key informants are genuine and willing to provide unbiased answer both for the survey and for the follow up interview.

Moreover, it was assumed that, there was no causal ambiguity and cognitive biasness in respondents' response. The sample drawn from Central Statistical Agency databases was also assumed to be a representative sample for all Leather and Leather goods industry.

The final assumption was that some respondents may not disclose certain relevant information as they may fear breach of confidentiality despite assurance that the information was going to be treated confidentially and only for academic purposes. Since the participation is voluntary, it was also assumed that some participants may not complete and return the questionnaires.

1.12 OPERATIONAL DEFINITIONS OF KEY TERMS

Internationalisation: Internationalisation is a term that is not only confined to exporting but also encompasses trade, cross-border clustering, collaboration, alliances, subsidiaries, branches, and joint ventures that extend beyond the home country environment (Singh, *et al.*, 2010).

Internationalisation Stimuli/Motives: Generally, a firm's involvement in exporting is the result of a wide array of motives, which can be classified into internal and external categories (Leonidou, *et al.*, 2007). These export motives, also called stimuli, incentives or attention evokers, are the main drivers of the firm's decision to initiate export activities (Leonidou, *et al.*, 2007).

Impediments to internationalisation: Impediments/barriers are those factors that hinder involvement of firms in international operations (Leonidou *et al.*, 2007).

Manufacturing sector: Manufacturing is a sector of the economy responsible for producing a wide range of commodities ranging from food and beverages to chemicals, clothing and different metal products.

Small and Medium-Sized Enterprises in Ethiopia: There is no consensus of SME definition as various countries had different definition depending on the phase of economic development and their prevailing social conditions. For the purposes of compiling statistical information, CSA categorises enterprises into different scales of operations on the size of employment and the nature of equipment. According to CSA (2010):

(a) Micro-enterprises: Are business activities that are independently owned and operated; have a small share of the market; are managed by the owner; and employing five or less employees. (This has recently been revised to include employment until 10 workers and capital reaching up to 20,000 Birr).

(b) Small businesses: Are those enterprises that employ 6-49 employees. They share the same characteristics with micro-enterprises in other aspects.

(c) Medium Scale enterprises: are those enterprises which have a relatively higher share of the market, are independently or jointly owned and managed by the owner or by appointed executives, and employ 50-99 persons. Those enterprises that employ more than 100 persons would be considered as large enterprises.

Manufacturing SMEs: This is a small- or medium-sized company that manufactures goods through a wholly- or partly-owned manufacturing plant.

The resource-based view: The resource-based view suggests that firm-specific resources and capabilities extensively determine a company's success or failure (Peng, 2008).

Uppsala internationalisation model (U-model): A stream of research on internationalisation focusing on SMEs started sometime in the early 1970s in the Nordic countries, with these researchers collectively being referred to as the Uppsala School.

The Network Model: In the context of internationalisation of SMEs, Zain and Ng (2006) defined a network as "the relationships between a firm's management

team and employees with customers, suppliers, competitors, government, distributors, bankers, families, friends, or any other party that enables it to internationalise its business activities." In this study network has been defined as internal and external networks to further make the above definition more inclusive.

1.13 STRUCTURE OF THE THESIS

This section provides an overall outline of the thesis structure and an explanation of the components of each chapter. The thesis is organised into eight chapters and summary of each chapter is presented as follows:

Chapter 1: Research Orientation

Chapter One provides the introduction, describes the background to the research and sets a scene for the thesis by providing an overview of the the study in the context of Ethiopia. It identifies the research problem to be addressed and states the research questions and hypotheses. The chapter also covers scope of the study, significance, and assumptions of the study. Finally, definition of terms used in the study is discussed, and structure of the thesis is explained.

Chapter 2: Country Context –Ethiopia at a Glance

This chapter provides a comprehensive literature study on the SMEs manufacturing sector in Ethiopia. It views the historical perspective of Ethiopian manufacturing sector; its economic importance within the country and export earnings, obstacles faced by the sector in accessing international market and government initiatives to promote the export sector.

Chapter 3: Literature Review

The third chapter presents review of related literature taken from various books, journals, reports and different empirical literatures. This examination of the relevant literature is used to build the theoretical foundation of the thesis.

Chapter 4: Problem Discussions and Relevace

Chapter four presents problems faced by SMEs in the process of their internationalisation. The chapter also discusses motives and barriers of firm internationalisation in the context of Ethiopia and other developing economies. The impact of export barriers on firm performance and export promotion efforts in the country also discussed.

Chapter 5: Conceptual Model and Hypotheses Formulation

Chapter five focuses on major arguments of the study. The research arguments are presented based on each research questions in view of identified problems. The research argument leads to the formulation of different research questions and hypotheses of the study.

Chapter 6: Research Design and Methodology

Chapter Six presents the methodology used to undertake the study and covers the research process followed in this study. Appropriate explanations for methods used, choice of research philosophy and epistemological construct as well as the eventual selection of the data collection procedures employed by the researcher. Detail aspects about validity and reliability, administration of the instruments, analytical procedures are examined and ethical considerations are discussed.

Chapter 7: Presentation of Empirical Results and Findings

Chapter seven presents results and findings of the study in the form of presentation without discustion. Appropriate strategy was followed to present the result of both qualitative and quantitative data.

Chapter 8: Findings, Conclusions and Recommendations

Chapter Eight is a concluding overview attempting to make the reader view the Ethiiopian scenario in relation to the bigger picture. The findings portrayed in chapter seven were discussed in relation to the research objectives, hypotheses were also tested and the result was triangulated with descriptive results. The chapter ends with recommendations and implications.

1.14 CHAPTER SUMMARY

This introductory chapter set out the research problem, background of the study, the context, and the intended research methodology. It also discussed aims and objectives of the study and demarcated the scope of the research to a certain degree of empirical and geographical coverage. A summary of the structure of the thesis was provided and finally the assumptions and theoretical positioning of this study were examined. The chapter ended with an overview of the composition of the thesis explaining the rationale for the chosen structure. The following chapter provides detailed background for the empirical study by expanding on the Ethiopian socio-economic and specific industry context.

CHAPTER 2

RESEARCH CONTEXT-ETHIOPIA AT A GLANCE

2.1 INTRODUCTION

The previous chapter provided an introduction to this study including the background, rationale, objectives, contribution and structure. This chapter presents a brief background of Ethiopia's socio economic context, the size of its economy and challenges faced as a result of globalisation. The study was conducted in the capital city of the country, which is the main concentration of firms in the leather sectors.

The first section summarises information provided in a variety of journals, magazines and newspapers in order to provide an overall picture of Ethiopia's economy and global integration of the country. The second part deals with the Manufacturing sector of the country with special emphasis on the leather and leather products sub-sector. The third part deals with SMEs development and characteristics including the definition of SMEs. It also deals with internationalisation context of Ethiopian firms in general and SMEs in particular. The final section focuses on problems of SMEs and government incentive packages to promote internationalisation of Ethiopian SMES. The chapter ends with summary of important issues discussed in the chapter.

2.2 ETHIOPIA: GENERAL CONTEXT

With a population of 84 million in 2012, Ethiopia is the second largest country in Sub-Saharan Africa. It is a federal country composed of nine regional governments and two city administrations. Most (84%) of its people live in rural areas making agriculture one of its dominant economic sectors. Ethiopia is among the fastest growing economies in the world and has maintained an average GDP growth rate of 11 percent in the last ten years (UNIDO, 2013).

Ethiopia is a large, diverse and complex country with political dynamics resulting from its unique history. Up to 1991, the country had seen a century of increasing state centralisation, underpinned by a political culture reflecting strong hierarchies and social stratification that had deep social roots (*ibid.*).

The current government, led by the Ethiopian People's Revolutionary Democratic Front (EPRDF), came to power in 1991 after almost two decades of armed struggle, overthrowing the repressive military Dergue regime. EPRDF introduced three key reform processes: federal decentralisation of the previously socialist state; market liberalisation of a command economy; and democratization under a multi-party constitution. Each of these reform processes has progressed to different degrees and enjoyed some notable successes, but also faced significant constraints (NBE, 2009).

In order to accelerate economic growth and international competitiveness of its products, Ethiopia has embarked on transformation path to become a middle income country with a climate resilience and green economy by the year 2025. The country's five year Growth and Transformation Plan (GTP) commits to maintaining double-digit, broad based and pro-poor economic growth, doubling agricultural growth and increasing the share of industry in the economy (GTP, 2010/11).

2.3 MACRO ECONOMIC CONTEXT OF ETHIOPIA

Since the early 1990s, Ethiopia has pursued a "developmental state" model with a strong role for government of Ethiopia in many aspects of the economy. This approach, based on high levels of public sector investment, has been associated with strong rates of broad-based economic growth since 2001, albeit from a very low base and, since 2010, a particularly ambitious program for state, infrastructure, and economic transformation. Notable progress has been made towards many MDGs including those for poverty, access to education and health care. Important improvements have been made in basic infrastructure, and in strengthening executive capacity, and Ethiopia presents a

relatively positive picture, particularly at the federal level. It has a track record of successful management of reform at the higher tiers of government, and there is clear evidence of a strong and consistent vision guiding policies, which are strongly pro-poor (MOFED, 2012).

Agriculture contributed 42% of the GDP in 2010/11 coming second to the service sector (46%). The manufacturing sector stands at 13% in 2010/11 and is rather small and underdeveloped. This sector showed an average growth performance of 10% between the years 2004/05-2010/11 (Table 2:1).

Table 2. 1: Real GDP (in Birr), Shares of Sectors and Annual Growth of Ethiopia

	2004/05	2005/06	2006/07	2007/08	2008/09	2010/11	Average 2004/5-2010/11
Real GDP(millions birr)	83.804	93.474	104.499	116.190	127.844	141.187	111.166
Growth in Real GDP	12.6	11.5	11.8	11.2	10.0	10.4	11
Share in GDP (in percent)							
Agriculture	47.4	47.1	46.1	44.6	43.1	42.0	45
Industry	13.6	13.4	13.2	13.0	13.0	13.0	13
Services	39.7	40.4	41.7	43.5	45.0	46.1	43
Annual Growth							
Agriculture	13.5	10.9	9.4	7.5	6.4	7.6	9.0
Industry	9.4	10.2	9.5	10.0	9.9	10.6	10.0
Services	12.8	13.3	15.3	16.0	14.0	13.0	14.0

Source: National Bank of Ethiopia (NBE) 2009/1011

In 2011, the economy continued on the high-growth trajectory of the previous seven years. Growth has been broad-based, with the services and the industrial sectors growing at the highest rates. This momentum was expected to continue in 2012 and 2013, albeit at a slower pace. The five-year Growth and Transformation Plan (GTP), which emphasises agricultural transformation and industrial growth, however, projects the economy to grow at much higher rates. In the 2010/11 fiscal year (8 July – 7 July), macroeconomic management failed to reduce inflation, which was driven mainly by escalating food prices.

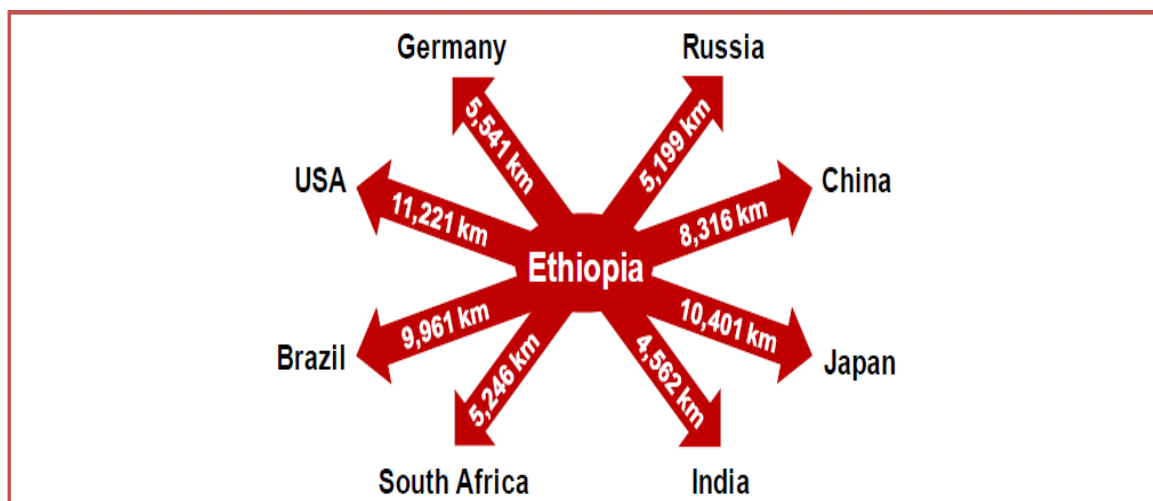
Export growth of goods and services has been strong, averaging close to 10 percent annually during 2000-10. Agriculture remains a major earner of foreign exchange, accounting on average for about 90 percent of the country's

exports over the past decade. Ethiopia has made good progress in growing and diversifying processed exports, with double digit growth volumes in export categories such as leather and leather products, and meat and meat products over recent years. The economy, however, remains dependent on primary products (principally coffee) to a larger extent than other African and Asian comparators. This may change in the coming years, if Ethiopia is successful in maintaining recent growth of foreign direct investment (FDI) (NBE, 2011).

The recent period of rapid growth, initially led by agriculture, has become more broad-based, with an increasing share of output being generated by the mining, services and manufacturing sectors (IMF, 2011). The basis for accelerated industrialisation is being laid in terms of rapidly increasing educational attainment, improved health outcomes, and quantum increases in infrastructure capacity in terms of access to power, transportation and telecommunications.

Industry parks are starting to spring up across Ethiopia much like in China 20 years ago. At the same time, Ethiopia is centrally located in the global economy, with non-stop transport distance to all major markets, being roughly equidistant between the United States and Japan, between China and Brazil, between Europe and India, and between Russia and South Africa (Figure 2.1).

Figure 2.1: Ethiopia's Distances to G7 and BRICSA Economies

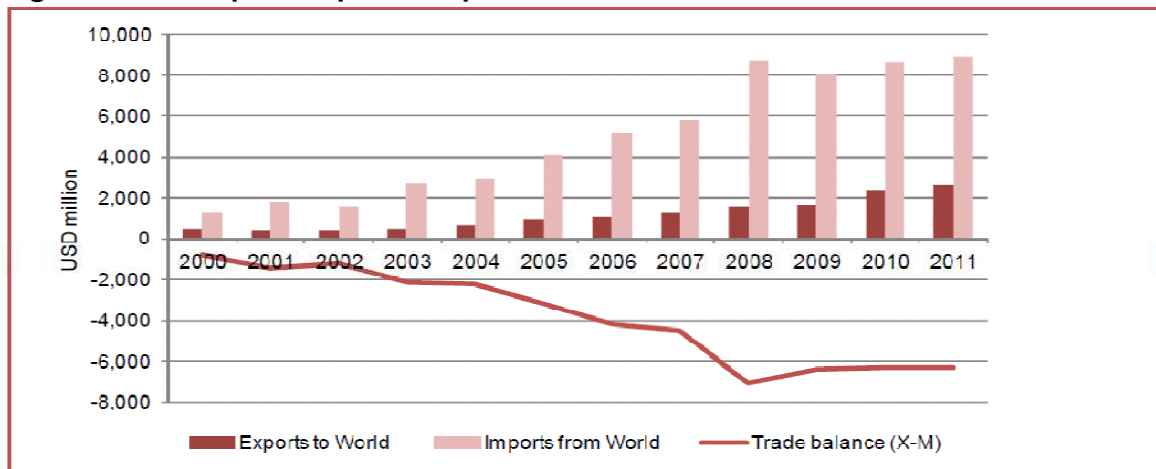


Source: Mayer and Zignago (2011).

Moreover, reforms to trade logistics are about to dramatically shrink the effective distance between Ethiopia and global markets. Addis Ababa is already the main air hub for Africa and the home of Ethiopian Airlines, which carries two thirds of Africa's air freight and has just significantly extended its cargo capacity and range. The infrastructure program now underway will stitch the country's internal economy together and connect that economy to global markets with new, high speed rail and road corridors. For international trade, this will position Ethiopian industrial parks closer to fully modern sea port facilities than Munich is to Rotterdam, on the trade route that accounts for 30% of global container traffic and connects East, South and West Asia to Europe and the Americas. Ethiopia's location on this trade corridor has always been its natural advantage (NBE, 2011).

Ethiopia's international trade has grown rapidly over the past decade (Figure 2.2). Until 2008, import growth was especially strong, reflecting not only Ethiopia's rapid industrialisation but also the real exchange rate appreciation. Export growth picked up strongly in 2010 and 2011 following the real exchange rate adjustment, which has resulted in a stabilisation of the trade deficit, although there was a significant slowdown in the final quarter of 2011, which the National Bank of Ethiopia attributed to both reductions in volumes of major export products and the pace of international prices of the export products (Abdurahman, 2012).

Figure 2.2: Ethiopian Exports, Imports and Trade Balance



Source: Abdurahman, 2012

2.4 CLASSIFICATION OF ETHIOPIAN MANUFACTURING ENTERPRISES

The European Union makes a general distinction between self-employment, micro, small and medium sized businesses based on the following criteria:

Table 2.2: European Union Classification of SMEs

Number of Employees	
o	Self employed
2-9	Micro business
10-49	Small Business/Enterprises
50-249	Medium-sized enterprises
	Large Enterprises

Source: OECD (2008)

Ethiopia: For Ethiopia, the classification of enterprises into small, medium and large scales depends on a number of variables such as level of employment, turnover, capital investment, production capacity, level of technology and subsector. Accordingly, the following scales are referred to the classification of enterprises in the Ethiopian context:

Table 2.3: Company Size Classification Structure for Ethiopia

Sub-sector	Number of Employees			Remark
	Small Scale	Medium Scale	Large Scale	
Textile & Apparel	5-10	10-49	Above 50	According to the central Statistical Agency (CSA) According to Federal Medium & Small Enterprise Development Agency (FeMSEDA)
Leather	2-10	21-50	Above 51	
Diary	2-10	21-50	Above 51	
Wheat	2-10	21-50	Above 51	
Wood Processing	2-10	21-50	Above 51	
Metal	2-10	21-50	Above 51	

Source: Ethiopia CSA and FeMSEDA

In Ethiopian context, manufacturing establishments are divided into three major groups. These are :

a) Large and Medium Scale Manufacturing Establishments-engaging 10 or more persons and using power -driven machinery.

b) Small Scale Manufacturing Establishments-engaging less than 10 persons and use power-driven machinery.

c) Cottage/Handicraft Manufacturing Establishments-performing their activities by hand (i.e., using non-power-driven machinery).

In the case of Ethiopia, even though the Trade and Industry Minister of Ethiopia uses the standard classification of industries with minor changes depending on the technology level and on the types of products produced at the present time, most of the Government organisations and authorities use “industry” in its traditional sense, hence link it with the manufacturing industry. Particularly, the investment authorities use industries to mean manufacturing industries. Since the main objective of the present thesis is on manufacturing industries, it would be enough to list out only the classification of the manufacturing industries in the context of Ethiopia by the Ministry of Trade and Industry of the FDRE (CSA, 2012).

2.4.1 DEFINITION OF SMEs IN THE CURRENT STUDY

There is no universal definition concerning the actual meaning of SME. From a quantitative perspective, the term SME refers to those companies from any sector whose size does not exceed a given threshold. However, in terms of statistics, it is always difficult to determine the correct corporate size, given that an appropriate size indicator is necessary. Economists know a number of such indicators, like balance-sheet total, number of employees, invested capital, earnings, total capital, equity, market position, production and sales volumes, profit and turnover.

There exist several definitions of the term small and medium enterprises (SMEs), varying from country to country and varying between the sources reporting

SMEs statistics. The commonly used criteria at the international level to define SMEs are number of employees, total net assets, sales and investment level. If employment is the criterion to define, then there exists variation in defining the upper and lower size limit of a given SME.

In Ethiopia, two types of working definitions for MSEs are being used at present, one by the Ministry of Trade and Industry (MOTI) and the other by CSA. No definition has yet been developed to differentiate between medium and large-scale enterprises.

MOTI' Perspective

The definition used by MOTI has been developed for formulating micro and small enterprise development strategy in 1997. According to MSE Development Strategy (1997):

Micro enterprises are those businesses enterprises, in the formal and informal sector, with a paid up capital of not exceeding Birr 20,000 and excluding high tech consultancy firms and other high tech establishments.

Small enterprises are those business enterprises with a paid up capital of above Birr 20,000 and not exceeding Birr 500,000 and excluding high tech consultancy firms and other high tech establishments.

CSA's Perspective

For the purposes of compiling statistical information, CSA categorises enterprises into different scales of operations on the size of employment and the nature of equipment. According to CSA: *Establishments employing less than ten persons and using motor operated equipment are considered as small-scale manufacturing enterprises.*

Enterprises in the micro enterprise category are subdivided into informal sector operations and cottage industries: Cottage and handicraft industries are those establishments performing their activities by hand and using non-power driven machines.

The informal sector is defined as household type establishments or activities, which are non-registered companies or cooperatives operating with less than 10 persons.

All enterprises employing ten or more workers are grossly considered as medium and large enterprises, without making a benchmark to distinguish between medium and large. Even then, the definition does not include those operating outside the manufacturing sector. CSA compiles information on small-scale industries, medium and large-scale industries, rural handicraft industries and urban informal sector. Here again, non-manufacturing small-scale enterprises and non-handicraft rural micro enterprise operators are not included, limiting the comprehensiveness of the information and hence casting doubt on its relevance for policy recommendation (CSA, 2013). Small scale industries in Ethiopia were squeezed in the past to marginal existence, denied almost all incentives to development. Since recently, however, they have gained relatively better, but insufficient position.

Besides lack of clarity and inconsistencies observed in definitions, organised information and consistent historical data on SMEs is lacking in Ethiopia. Neither the MoTI nor Federal Micro and Small Enterprise Development Agency (FeMSEDA) has compiled data on MSEs. This hampers an in-depth analysis of the sector. Due to lack of other sources of information, the current study heavily relies on industrial classification provided by CSA which would provide some, albeit partial, picture of the industrial sector.

In light of the above facts and taking into consideration the Ethiopian situation, the definition given by CSA (2008) was adopted in the current study:

(a) Micro-enterprises: Are business activities that are independently owned and operated; have a small share of the market; are managed by the owner; and employing five or less employees. (This has recently been revised to include employment until 10 workers and capital reaching up to 20,000 Birr).

(b) Small businesses: Are those enterprises that employ 6-49 employees. They share the same characteristics with micro-enterprises in other aspects.

(c) Medium Scale enterprises: are those enterprises which have a relatively higher share of the market, are independently or jointly owned and managed by the owner or by appointed executives, and employ 50-99 persons. Those enterprises that employ more than 100 persons would be considered as large enterprises.

Using the above working definitions of manufacturing SMEs, the current study focused on internationalisation behaviour and barriers faced by SMEs in the leather industry of the country. This was due to the fact that the sector is one of the Government's priority areas as indicated in five years strategic plan of GOE (GTP, 2010/11). The Leather sector of Ethiopia includes manufacturing of leather, footwear, glove, leather garments, leather goods and articles. Therefore, the next section presents the state of leather industry, challenges encountered by SMEs in the leather industry and contribution of the sector in the country's economy.

2.5 THE ETHIOPIAN LEATHER AND LEATHER PRODUCTS INDUSTRY

Leather industry in Ethiopia is the long lived and more established manufacturing venture in the modern as well as traditional mode of production. It is an indigenous industry not only because it has been practiced to produce traditional artifacts since long ago because the country is well-endowed with the basic raw materials, manpower and local ownership and to some extent with machinery and technological know-how (UNIDO, 2008).

The leather industry bases itself on the country's livestock resources. Indeed Ethiopia possesses one of the world largest livestock populations of which is 52 million cattle population that makes the country ranking 1st in Africa and 6th in the world, 27 million sheep population which makes 3rd in Africa and 10th in the world and 23 million goat population which makes 3rd in Africa and 8th in the world. The off-take rate for cow hides 13.87%, goat skins 27.34% and sheep skins

40.29%. The hides and skins supplied to the tanneries are reached 1.4 million cow hides, 6.7 million goat skins and 13.2 million sheep skins (ELIA, 2013). The sheep skins are well known for their quality. The goat skins in particular are known for their quality and international acceptance. Both goat and sheep skins are preferred for leather garments and gloves manufacturing in addition to being used for shoe upper. The resource endowment of the country illustrates considerable potential of the country in the leather industry (CSA, 2012; EIA, 2013).

There is a clear recognition of this potential by policy makers in Ethiopia as indicated in the Growth and Transformation Plan (GTP) and several other national plans that preceded it. In the GTP document, the leather and leather products industry accordingly is one of the priority industries that are expected to contribute considerably to export diversification and foreign exchange earnings through greater value addition and productivity improvement (FDRE, 2010). On top of this strategic direction of the Ethiopian government, the current study will contribute a lot in understanding internationalisation barriers of Ethiopian SMEs in the leather sector and formulate export promotion strategies accordingly.

The Ethiopian Leather and Leather Products Industry comprises three major industrial sub-sectors or components: the tanneries processing and producing the leather, the footwear manufacturers (shoe producers), and the leather goods and garments manufacturers. They are medium and large enterprises operating in the formal sector, whereas the micro enterprises particularly in footwear manufacturing area operate in the informal sector (ELIA, 2013). The following sub-section presents the characteristics of each sub-sector.

2.5.1 THE TANNING SUB-SECTOR

There are 29 tanneries converting hides and skins into different types of finished products. The sector is successfully moved to the production and export of higher value-added (fully processed) finished leather. There is a possibility of

producing up to 500 million square feet of finished leather per year. This industry had a relatively better position due to maturity in its age and due to huge investment made on it. Taken as a whole, these tanneries have created direct job opportunities for more than 4,000 people. Out of 29 tanneries, 9 are 100% export oriented in semi-processed skins mainly pickle and wet blue. The other tanneries managed to produce finished leather products by introducing new technologies and thus, are selling almost 20% of their products in the local market (Mol, 2011).

Currently, there are 29 tannery industries in operation. The tanneries have 153,650 sheep and goat skin soaking capacity and 9,725 cow skin soaking capacity per day. Together they also employ 4577 persons. Ethiopian Tannery with 12,000 sheep and goat skin and 1,200 cow skin soaking capacity, and Ethio-Leather (ELICO) with 15,500 sheep and goat skin and 1,050 cow skin soaking capacity, are the two largest industries (ELIA, 2013). Most tanneries seem to be working below capacity (*ibid.*). In this study, all tanneries were not considered. Only tanneries in the category of SMEs were targeted.

In the five years growth and Transformation plan (GTP, 2010/11-15), the government has also given due attention to the growth of the tanning industry in view of higher value addition set forth in the whole GTP. From the leather industry in total the GTP has placed a target to earn 500 million USD per year and 136.65 million USD per year from finished leather export. The export performance of the tanning sector during the last five years shows that it will not be difficult to realize the target set in the GTP. Table 2.4 depicts the export performance of the leather sector.

Table 2.4: Leather Sub-sector Export from 2006/07 to 2010/11

No	Type of Leather Exported	Years of Export (Value in USD)				
		2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
1	Pickkled Leather	30,470	32,088	19,131	0	0
2	Wetblue Leather	27,073	29,288	14,867	0	0
3	Crust Leather	19,508	17,719	23,128	37,755	70,140
4	Finished Leather	6,951	12,259	11,152	12,878	25,335
	Total	84,002	91,354	68,278	50,633	95,475

Source: Abdurahman, 2012: pp-7

2.5.2 THE FOOTWEAR SUB-SECTOR

It is a stage of development in the country in which there were only two factories before 1991, but currently there are 16 medium and large scale footwear manufacturers. The shoe industry is an emerging and promising industry. The footwear (shoe) industry is, in turn, composed of two sub-sectors: the larger mechanised shoe industries sub-sector and the smaller production units – micro, small and medium enterprises including the informal ones, with fluctuating employment levels, unhealthy work infrastructures and seasonal production schemes (UNIDO,2012).

In general, the footwear sub-sector has installed capacity amounting to 7 million pairs/year, but the actual production is currently about 5 million pairs. This output is equally divided between the mechanised large and medium firms and the small and medium enterprises (SME sub-sector) (*ibid.*). Even though they are in such a large number and are with such a big capacity, SMEs produce low quality, low priced mostly men's shoes; and are characterised by low productivity (material and labor), poor working conditions, and improper utilisation of resources, weak relationship with customers and suppliers and poor management. They are focused on the local market with a great threat of losing the local market share to cheap imported shoes from China. It is believed that clustering will help the SMEs acquire more power in order to plan and manage their supply and market (Siba and Soderbom, 2011).

2.5.3 THE MICRO AND SMALL SCALE ENTERPRISES

There are 368 Micro and small scale enterprises producing leather products with small capital ranging from 2000 ETB to 220,000 ETB in different regions of the country. These groups of firms also referred to as “The informal leather sector”. The informal sector is comprised of MSMEs (micro and small/medium industries) most of which tend to cluster in the ‘Merkato’ area in Addis Ababa (UNIDO, 2008). The exact number of these MSMEs is not known but past studies have estimated that there could be up to 40 units of medium scale producers, 75-100 units of small scale producers and 400-500 units of micro enterprises (UNIDO, 2008). Together, these companies are estimated to produce 12,000 pairs of shoes per day, which is approximately the same amount as the formal shoe industry. Formal shoe factories are sometimes contracting out certain steps or parts of their production to informal MSMEs but statistical figures on this phenomenon are not available.

Working conditions in ‘Merkato’ enterprises are very precarious (Tegegne, 2007). In 2006, there were one association and four cooperatives of footwear MSMEs existing at Merkato, initiated by the sub-city MSE development agency together with cluster actors. The Ethio-Leather Association had 792 footwear MSMEs as members and the four cooperatives included 145 micro-producers of footwear. Later on the cooperatives joined the leading association which was renamed as Ethio-International Footwear Cluster Cooperative Society (EIFCCOS), uniting the MSMEs of the sector under one umbrella. At present, EIFCCOS have 1200 members; about 1000 of them producing footwear and the others other parts of the value chain.

2.5.4 THE LEATHER GOODS AND GARMENTS SUB-SECTOR

The number of industries in leather garment and accessories has shown an increase in recent times. Official statistics mention 18 leather goods and garment industries (LIDI, 2013) but the actual figures may be higher. Only recently, dress glove making industries have commenced production and

export. This industry is also an emerging segment & appears to be more promising (*ibid.*).

There are 16 enterprises operating in the leather goods and garments sub-sector. Taking into account only major leather goods and garment producers (14 in number), the overall installed capacity and actual outputs per day were 700 pieces and 309 pieces, respectively. More specifically, they have a daily installed capacities ranging between 20–150 pieces; however, the actual factory outputs ranges from 10–60 pieces of garments per day. The reasons behind this low capacity utilisation are the size and static state of the domestic market, lack of competitiveness and negligible penetration into the export market (UNIDO and MoTI, 2008).

Because of the promising growth of investment in the leather products industry especially footwear and glove, the demand of leather products industry in the country for finished leather is increasing rapidly from time to time (*ibid.*).

2.6 POSITIONING OF THE LEATHER SECTOR FOR EXPORT IN ETHIOPIA

The Ethiopian leather and leather products industry occupies a unique place in the Ethiopian economy due to its strong linkage with the national resource base, namely hides and skins. Considering the export activities of the country, the industry is the fifth largest foreign exchange earner in Ethiopia, earning about 8% of foreign exchange in the year 2006-2007. More importantly, the leather industry comes as the leading exporter, within the manufacturing sector, accounting for, on average, up to 67% of the total manufacturing export.

According to data from MoI shown in Table 2:5, the leather and leather products exports increased from 67 million USD to 104 million USD between 2004/05 and 2010/11. Due to the financial crisis and other factors, export declined in 2009/10 but picked up heavily in 2010/11. On average, the leather and leather products industry contributed 5.9 % to the total export earnings for the years 2004/05-2010/1 corresponding to a slight decline, due to other export

items occupying significant positions in the country's export mix (Abdurahman, 2012).

According to FAO, the global trade of light leather was 16.6 billion USD in 2010. Despite its impressive resource base, Ethiopia's share in this trade is only about 6%. But trends of the different product categories show that crust, finished leather and shoe exports increased while wet blue and pickle declined. In fact, pickle and wet blue exports ended in 2010 due to government policy which put heavy taxes on exports of wet blue, pickle and crust in order to encourage production and export of finished leather (Abdurehman, 2012).

Table 2.5: Exports of Leather and Leather Products (million USD)

Product Category	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
LLPI*	66.9	75.3	89.5	101	75.7	56.5	101.34
Pickle	28.2	28.4	30.5	32.1	18.9		
Wet Blue	21.9	28.7	27.1	29.3	15		
Crust	9.4	10.5	19.5	17.7	23.1	37.7	70.14
Finished Leather	3.1	5.7	6.9	12.3	11.2	12.8	25.34
Shoe	3.4	1.6	5.5	9.7	7.2	5.7	8.64
Leather Garment & Articles	0.03	0.3		0.02	0.1	0.13	0.24
Total Export**	847.2	1000.3	1185.1	1465.7	1447.9	2003.1	2747.1
LLPI export as % of total export	7.8	7.5	7.5	6.8	5.2	2.8	7.5

*Source: LIDI, unpublished **Source: National bank of Ethiopia, various annual reports

Ethiopia's share in the global footwear market is lower than its position in leather trade. In the year 2010, Ethiopia accounted for 0.13% of the total world production while China and Italy, the two major producers, accounted for 41.7% and 5.4 %. Ethiopian leather products are mainly destined to Europe and Asia. The share of Europe in 2007/08 and 2008/09 was around 70% while Asian shares for the same years were around 25%. America and Africa receive a very small percentage of the export. Italy (35%), Germany (19%) and China (15%) were the three most important export destinations in 2008/09. As shown in the above table, the contributions of SMEs in Ethiopia's international trade is very

low which needs critical intervention compared to the involvement of other countries SMEs in global trade activities. To this end the current study can create awareness about the status of SMEs in the share of country's export market.

2.7 GOVERNMENT POLICIES IN THE SECTOR

The Ethiopian government has set for the country a long term vision of becoming a middle income economy by 2020-2023 and meeting the MDGs in 2015. Several government policies and plans are in place to fulfill the larger goal of meeting the MDGs and the vision of becoming a middle income country. The latest is the Growth and Transformation Plan (GTP) that spans a period of 2010/11-2014/15 and emphasizes agriculture and industry as main drivers of growth (FDRE, 2010).

The industrial development strategy as a sectoral strategy issued in 2002 (FDRE, 2002) has preceded the GTP. It recognizes the private sector as an engine of development and emphasises the need to follow export-led growth, the need to pursue Agriculture Development Led Industrialisation (ADLI), the need to forge linkages between internal and external investors and the role of government in providing leadership. The purpose is to develop the industrial sector and enhance its contribution to the overall economic growth. In a bid to support industrial development, the strategy outlines that there is a need to create stable macro economy, establish modern financial system, and provide reliable infrastructural facilities such as road transport, rail transport, air transport, telecommunication service, power provision, and water and land delivery. Further, the need to create efficient and developmental administration including fostering transparency and accountability, improved tax and information system, fair competition and efficient judicial system was also emphasized (UNIDO, 2011).

Within the industrial sector, some specific industrial groups that are considered as strategic are selected as priority sub-sectors. These include textile, wearing

apparel, leather tanning and footwear. These industries are labor-intensive, have the ability to forge strong linkages with agriculture and can bring export-led industrialization. The Ethiopian Government has provided various institutional and policy support in order to realize the development of these sectors. In terms of policy, the main thrust is to provide an enabling environment for the private sector. The deregulation and liberalization of goods and factor market, maintaining a stable and predictable macro-economic environment and issuance of investment policy are the major ones. The government has also established a consultation forum between the private sector and the government beginning of 2002. In addition, incentive schemes to encourage exports are also put in place. These include:

- Exemption from income tax;
- Importing equipments free of tax;
- Improvement of service delivery (shortening period of license, renewal of permits etc);
- Exemption of imported inputs for export purposes from indirect taxes;
- Credit guarantee scheme to avoid problems of working capital for exporters;
- Allotment of finance for loan for those engaged in export activities;
- Provision of access to infrastructure for those engaged in export. The establishment of industrial zones in all regions addresses the infrastructural needs and land requirements of investors;
- Creating linkages with foreign investors in marketing and production; and
- Improving the transport and transit services.

The government's intervention in the leather sector was however not confined to large tanneries and footwear producers. There are more than 2,000 micro and small shoe makers clustered around Mercato area in Addis Ababa, where a plethora of shoe producers, parts suppliers, accessories retailers, machining and equipment service providers and product outlets are concentrated. Most of these enterprises lack proper business premises and are forced to operate

out of small rented cribs in the back alleys of businesses and residential houses in the Mercato area (UNIDO, 2010).

In 2009, the Ministry of Trade and Industry, in collaboration with UNIDO, designed a project entitled 'Technical Assistance Project for the Up-grading of the Ethiopian Leather and Leather Products Industry' to be implemented by UNIDO experts by 2012. This involved "a wide range of technical assistance from production layout to management and marketing" (UNIDO, 2012). These and a number of other government initiatives have greatly contributed to the solid growth of the leather and leather products industry in Ethiopia. However, the performance of the sector in international arena is still weak relative to the country's resource potential. Accordingly, the following section presents constraints of the sector especially in the area of internationalisation.

2.8 CONSTRAINTS OF THE LEATHER AND LEATHER PRODUCTS INDUSTRY

A study conducted under the Engineering Capacity Building Project (ECBP) has scrutinised the constraints of the LLPI along the value chain from animal husbandry to slaughtering, tanning, manufacturing, sourcing of inputs and marketing issues such as poor delivery time, poor customer communication, poor sample development etc. Combining the findings of this study with findings of the current study, the main constraints of the LLPI has been summarised as follows:

i) Shortage of hides and skins: Acute shortage and quality of hides and skins is a major problem faced by tanners in Ethiopia (COMESA, 2012).

ii) Shortage of finished leather: Leather garment and footwear industries face increased cost of production, underutilisation of capacity and inability to deliver for export market mainly as a result of the shortage of finished leather (COMESA, 2012).

Until recently, the Ethiopian tanneries used to export semi-processed leather particularly wet blue, pickle and crust. Such practice led to low earnings as semi processed goods have low value-addition and also created shortage of finished

leather availability in the local market. Since December 2011, the government poses a tax of 150% on crust export with the intention of discouraging the export of semi-processed leather. As a result, the export of finished leather has increased and leather prices for the local industries are on the rise. Reportedly the price of finished leather increased from 11 Birr per square foot in 2011 to more than 40 Birr in 2012.

iii) Imported inputs: According to a COMESA (2012) study the leather garment and footwear industries use at least 40 different components but only five of these can be sourced locally. Buying components from abroad is a lengthy process that affects time bound exports. Holding components on stock is difficult on account of differences in the demand of exporters and lack of working capital (*ibid.*).

iv) Skilled labor: The lack of skilled labor has been cited as major constraint of the sector, in particular in design and cutting (EEA, 2011).

v) Difficult access to export markets and low profit margins: Especially shoe manufacturers find it difficult to access export markets directly. They often depend on brokers who provide linkages to buyers but keep the lion share of benefits from such arrangements. Shoe manufacturers report that their bargaining power is pretty low due to heavy competition. As a result, export profit margins tend to be low, often extremely low or even inexistent.

vi) Competition with low cost shoe imports: The Ethiopian leather goods market, such as shoe market, is of considerable and increasing size but the Ethiopian shoe industry seems to be unable to make full use of this opportunity. Low cost shoe imports in particular from China have been an issue.

vii) Design weaknesses. Import competition is particularly heavy for lady's shoes because Ethiopian shoe manufacturers find it difficult to compete with the sophisticated and fast changing design of these shoes.

viii) Access to finance: The survey conducted by the Ethiopian Economic Association identified that finance, physical infrastructure and institutions constrain the sector (EEA, 2011). In terms of finance, the main problem is lack of

access to finance due to collateral requirement, high transaction cost, high interest rate and low credit ceilings.

ix) Physical infrastructure and customs: In terms of infrastructure the major problems are power, water and transport services. Complicated customs procedures and delays are also quoted as major export constraints.

x) Labor, wages and poverty issues: Wage levels in the Ethiopian LLPI tend to be below wages in other industries. While tanneries are able to pay higher wages, the low profit margins in the shoe industry seem to be leading to problems of “working poor”. There are signs of increased labour mobility to other sectors and even labor scarcity.

xi) Constraints on international market penetration and competitiveness

The Ethiopian LLPI continues to suffer from an image problem in international markets due to its long association with raw material and semi-processed leather supplies. Image problems, whether based on real or perceived underlying issues, are real problems faced by many low income economies and tend to lower or even preclude the flow of new investments in the production and marketing of high value-added products for the global market. For this reason, the Ethiopian leather processing enterprises are at a disadvantage when it comes to marketing, as Ethiopia is generally still regarded as a provider of raw and semi-processed materials rather than high quality finished leather and leather goods, a perception that is changing only slowly.

Poor trade logistics also impose additional costs on the competitiveness of the leather industry in Ethiopia (Dinh, *et al.*, 2012). In this regard, the biggest challenge is the long lead time in imports. Timely imports of chemicals and other inputs are vital to the smooth running of the production process.

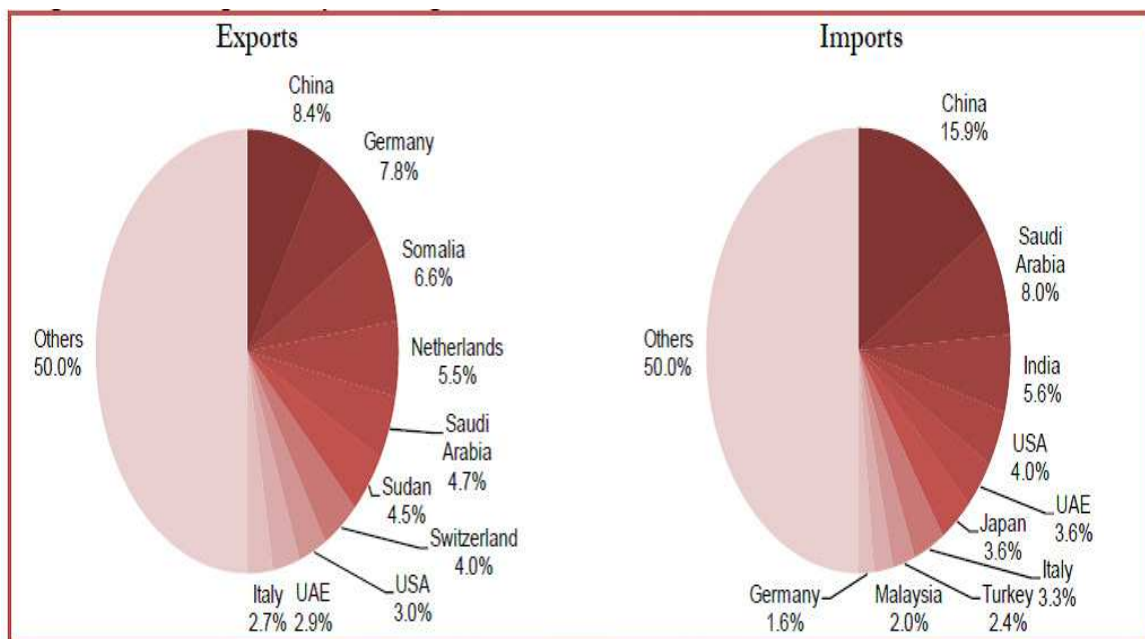
Moreover, given supply problems of finished leather, a few companies use significant quantity of imported leather, which is heavily taxed, thereby eroding their international competitiveness. While the government does support chosen companies in participating in international trade fairs, this is deemed insufficient

compared to the kind of marketing support that competing countries, such as India, Pakistan and China enjoy (Dinh, *et al.*, 2012).

2.9 INTERNATIONAL TRADE PATTERNS IN ETHIOPIA

With respect to the destination of Ethiopia's exports, some surprising shifts are taking place. Switzerland has (just barely) surpassed China as the top destination for Ethiopia's exports. In what is probably the start of a longer-term trend, neighboring and regional countries are increasingly among the largest buyers of Ethiopian goods: Somalia and Sudan, for example, are both now individually larger export markets for Ethiopia than is the U.S. or Italy or Great Britain (ACRE, 2010). In terms of geographical trade patterns, while China and India have been the most important sources of Ethiopian imports, China has also become Ethiopia's most important foreign market in recent times (Figure 2. 3).

Figure 2. 3: Ethiopia's Key Trading Partners, 2009-2011



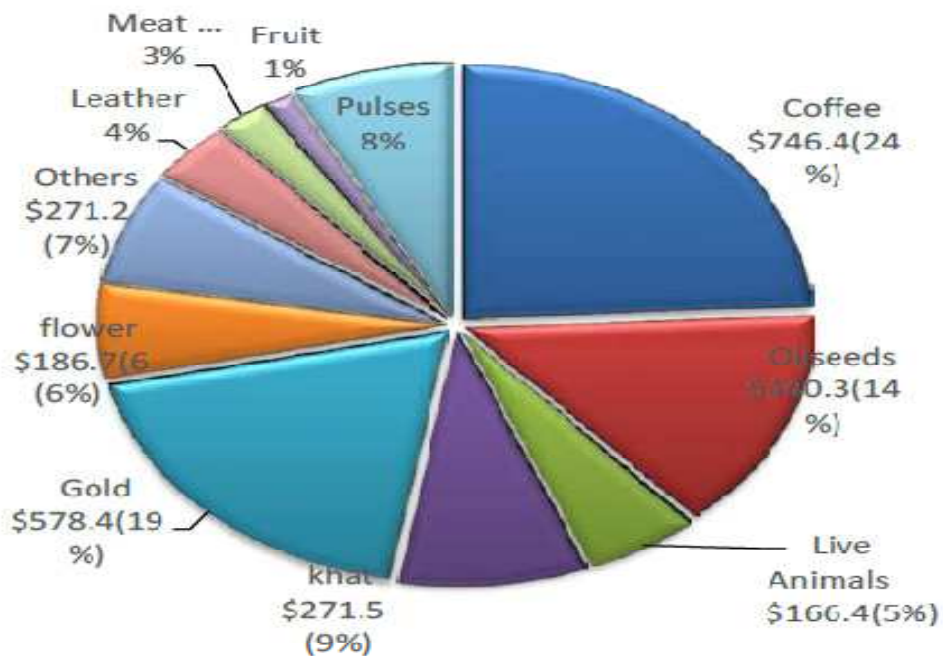
Source-UNIDO, 2013

This exports trade pattern of the country reflects Ethiopia's global position at the cross-roads between the East and the West. It is telling, therefore, that the three most important destinations of Ethiopia's exports are China (east), Germany

(west), and Somalia (region). This pattern of export markets ensures that Ethiopian exports are not vulnerable to business cycles in any one of the global regions (UNIDO, 2013).

Regarding export items of the country, the leading seven export items account for over 85 % of export earnings of the country indicating that efforts on export diversification need to be harnessed. Secondary sector exports, especially manufacturing, are still low although increasing. In recent years, there has been rapid growth in non-traditional exports with the share of non-coffee exports rising to 75.8 % in 2012/13 in contrast to 40% in 1997. The destinations of Ethiopian exports were mainly Europe (43.6%) followed by Asia (30.3%) and Africa (21.3%).

Figure 2.4: Share of Major Exports in Million



Source: National Bank of Ethiopia, 2014

Despite continued efforts to increase volume of exports in 2012/13, value of exports declined by 2.3 %, once again underlining the vulnerability of Ethiopia's export to commodity price fluctuations. The price of most of the country's export commodities, including coffee, has declined, and the gain in export of

leather and leather products and pulses was not high enough to compensate for the decline (UNIDO, 2013).

However, this traditionally uni-modal trade pattern, where both origins of imports and destination of exports converge into few trading partners, is beginning to change. Ethiopia is diversifying its trading partners. Today, East and South Asian countries (particularly China) are becoming Ethiopia's major sources of imports. Moreover, import diversification takes place largely as a result of trade creation rather than diversion. Also, some degree of diversification with respect to export destinations is taking place, though less significantly than import origins. Though the EU is still by far the major export destination, both Asia and the Middle East are increasingly becoming major importers of Ethiopia's goods (UNIDO, 2013).

In spite of some progress in the second half of the 1990s, Ethiopia's export bundle remains relatively small and concentrated, both in terms of products and markets. Moreover products exported by Ethiopia have been experiencing negative growth in the world markets, even though Ethiopia's exports have sometimes been able to grow in these declining markets by capturing a larger market share. Part of the explanation lies in the fact that products exported by Ethiopia face higher tariffs and quantitative restrictions in both developed and developing countries (ADB, 2012).

Regarding the composition of exports, until the 1990s the Ethiopian export sector could be characterised as a 'three-commodity sector' consisting of coffee, hides and skins, and oilseeds and pulses. Between 1966 and 1996, on average 59% of the country's export earnings came solely from coffee and similarly in 1997/98 the share of coffee is 70% but in 2009/10 it shows a significant decrease to 20% while the share of non coffee agricultural exports and major manufacturing export commodities (leather and leather products; textile; and agro processing products) are 30% in 1997/98 and has increased remarkably and reached 80% in 2009/10.

2.10 TRADE AGREEMENTS TO STRENGTHEN ETHIOPIAN EXPORTS

In 1992, Ethiopia became eligible to participate in the Generalised System of Preferences (GSP). Under the GSP, a wide range of Ethiopia's manufactured products are entitled to preferential duty treatment in the United States of America, Canada, Switzerland, Norway, Sweden, Finland, Austria, Japan, as well as most European Union countries. Besides, no quantitative restrictions are applicable to Ethiopian exports on any of the 3,000 plus items currently eligible for GSP treatment (MoTI, 2009).

For long, Ethiopia's main trading partners have been advanced countries such as the EU, Japan, USA, etc. This is natural in the sense that there are near perfect trade (import-export) complementarities between developing and developed economies. Moreover, such trade partnership is further supported by agreements which often go beyond trade per se to general development aid, such as, for instance, the long-standing European Union and African, Caribbean and Pacific Countries (EU-ACP) agreements. Traditionally, high correlation prevailed between Ethiopia's origin of imports and destination of exports. For instance, the same few countries in the EU are major destinations of exports as well as origins of imports (NBE, 2011).

2.10.1 PREFERENTIAL MARKET ACCESS OPPORTUNITIES

Ethiopia enjoys preferential trade offers from a number of countries. Under the various Generalised System of Preference (GSP) schemes, the country is one of the beneficiaries of preferential trade access for a wide spectrum of commodities from a number of countries, including, among others, Australia, Canada, the European Union (EU), Japan, Norway, the United States of America (USA), China, etc. Ethiopia has also access to other specific benefits offered to least developed countries (LDCs), such as, for instance, EU's Everything But Arms (EBA) scheme (UNIDO, 2013).

The two most important varieties of GSPs that Ethiopia currently enjoys are the EBA and African Growth Opportunity Act (AGOA). Being a least developed

economy, Ethiopia is one of the 42 LDCs currently benefiting from the full quota and duty free privilege to the EU markets. Given Ethiopia's relative proximity and the large size of the EU market, the EBA scheme is, perhaps, the most important preferential market offer for its exports. Moreover, traditionally, the long-standing EU-ACP countries trade agreements have been complemented with development aid. As a result, Ethiopia's major trading partners in both import and export trade have been, for long, EU member countries (MoTI, 2012).

In October 2000, Ethiopia was also designated as one of the 35 sub-Saharan African countries eligible to receive African Growth and Opportunity Act (AGOA) (Trade and Development Act of 2000; P.L. 106-200) benefits. In August 2001, Ethiopia was certified for textile and apparel benefits under AGOA. The AGOA recently extended until 2015 and include a 3-year extension of the 3rd Country Fabric provision until 2007, afford AGOA-eligible countries (like Ethiopia) a unique opportunity to access the U.S. market through duty-free and quota-free terms. Whereas it is also meant to assist such countries in utilizing the preferences to build capacity and competitiveness, Ethiopia is yet to take full and significant advantage of AGOA because it does not have a strategy in place to capitalize on AGOA's benefits (MoTI, 2011). AGOA provides duty free access of certain products into the US market.

As a least industrialised economy, Ethiopia has not been expected to offer preferential treatment to any of its major trading partners, at least, not to date. However, as an aspirant to join the WTO and EU's Economic Partnership Agreement (EPA) scheme, it may be expected to do so in the medium to longer term period (Busse, *et al.*, 2007). From the point of view of development policy and in light of countries' industrialisation experience, however, reciprocity is a highly debatable issue and of great concern for least developed economies. Ethiopia has to address the repercussions of this policy measure before making the decision to go for it.

A glance at regional integration of the country, Ethiopia's regional economic integration is limited. Insular policies arising from domestic upheavals and

regional friction are partly to blame. But there are also concerns over revenue losses and the negative impact on domestic industries, regarded to be less competitive than among neighbours. Ethiopia is a member of the Common Market of Eastern and Southern Africa (COMESA) and the Inter Governmental Authority for Development (IGAD), but has not yet ratified the COMESA Free Trade Area Protocol. The ratification of the Free Trade Area (FTA) would be significant in creating opportunities for regional trade expansion (ADB, 2012).

Ethiopia and The Sudan have also agreed to conduct trade on a duty free basis for all industrial and agricultural goods originating from the respective countries. It should, however be noted that while the later is a member of COMESA FTA, the former is not. As such while the later will face no problem of inconsistency from this action from COMESA members, the former might be under pressure to respect the COMESA MFN provisions, i.e., grant same treatment to similar goods imported from all COMESA member countries, including the EAC.

2.11 EXPORT PROMOTION EFFORTS IN ETHIOPIA

In 1991, the transitional government of Ethiopia (TGE) together with the IMF and the World Bank has undertaken liberalisation and structural adjustment program to address the internal and external imbalances of the economy. In particular, trade policy reform was undertaken which aimed at promoting exports through diversifying the country's commodity exports. Among the measures undertaken the following were important ones:

- a) Devaluation of the Ethiopian currency by more than 140 percent in terms of US dollar to make exports competitive and promote export trade. In addition, a weekly auction of foreign exchange was introduced and to guarantee that the incentive pass to the peasants, the government set a floor price for coffee, haricot bean and sesame seed.
- b) The tariff regime was continuously revised and was reduced on a stage basis from a maximum of 230 percent to 50 percent. Similarly, to nullify the anti-export

bias, the state lifted a 2 percent transaction tax on non-coffee exports and abandoned the direct financial subsidy on export.

c) The import and export licensing system were simplified and become more transparent so as to encourage new entrants in the export market. The range of goods and services covered by the auction has been progressively extended and finally fully liberalised.

d) A duty draw back scheme was introduced where by exporters are re-funded the tax and duty they paid on the inputs and raw materials used in export production. This is to provide exporters a free trade status on their import of intermediate inputs and encourage non-traditional export products, especially that of manufactured goods (NBE, 2011).

In fact, the Government has gone a step further in its support for small enterprises by formulating a National Micro and Small Enterprises (MSEs) Development and Promotion Strategy. This is an important beginning and should be followed by refinements of micro-policies and incentive schemes aimed at promoting learning and technical change at the enterprise level (MoTI, 2009).

2.11.1 INSTITUTIONAL SUPPORT IN EXPORT PROMOTION

Owing to its basic configuration, regulation of the LLPI is diffused across several institutions. The major institutions involved in different facets of the industry with ministerial portfolios include the Ministry of Agriculture, Ministry of Trade, Ministry of Industry and the Ethiopian Revenue and Customs Authority. The National Bank of Ethiopia is an important non-ministerial institution that is also involved in the sector. In addition to the leather industry, line ministries and authorities are responsible for regulation, monitoring and management of a wide array of other sectors and industries. In the interests of brevity and focus, we deal only with institutions whose major responsibility lies within the scope of the LLPI. These are the two sector associations, which represent private business interests of tanneries and producers, and of skin and hide traders, respectively, and the Leather Industry Development Institute, which is the government institution

charged with providing technical assistance and formulating policy for the leather sector. Table 2.6 presents summary of institutional support programs to export sector in Ethiopia.

Table 2. 6: Summary of Export Support Measures in Ethiopia

Government Departments	
Ministry of Trade and Industry	The package of development support activities of MOTI mainly focus on: Infrastructure: to enhancing the competitiveness of the Ethiopian LLPI sector and promote better access to the global LLPI value chain. Market promotion Technical assistance
Ethiopian Export Promotion Agency (EEPA)	It provides professional support (hands-on technical assistance) and training to: <ul style="list-style-type: none"> • Exporters, in line with the newly adopted export development strategy; alleviation of problems faced by exporters by ensuring that export-related procedures of institutions relevant to export trade are conducive to the country's export development; • Undertaking and dissemination of studies with regard to market on exportable products. • Linkage of Ethiopian exporters with foreign importers; provision of support to exporters allowing them to participate in regional and international trade fairs. • Collect, analyse and disseminate trade-related information to the business community and provide inquiry reply services; • Encourage the existence of coordinated and efficient working arrangements among producers, exporters and service providers.
Export bodies in promoting Ethiopian Exports	
Federal and Micro Enterprises Development Agency (FeMSEDA)	The main objectives of FeMSEDA are: <ul style="list-style-type: none"> • To Encourage, Coordinate & Assist institutions engaged in service provision to the development & expansion of Micro & Small Enterprises in the country at large • FeMSEDA is currently highly active in supporting SMEs throughout the country in market linkage and export promotion.
Ethiopian Tanners and Footwear	ETFGMA was established in August 2003 and comprises three independent associations namely Ethiopian Tanners Association

Leather Goods Manufacturing Association (ETFLGMA)	<p>(ETA), Ethiopian Shoe Association and Awash Leather Garments Manufacturing Association. It has as a main objective to provide for an interchange of views amongst members on matters affecting the leather industry and to promote/protect the interest of the leather industry.</p> <p>One of the most important achievements of ETFLGMA in the past few years has been facilitation for participation of its member enterprises in various leather, leather products and allied industries international trade fairs.</p> <p>The ETFLGMA works in closely with MOTI leather sector support office, UNIDO, COMESA CDE (Center for development of Enterprise-EU) and many other international organizations.</p>
Trade Chambers and Sectoral Associations	<p>The Ethiopian Chamber of Commerce (ECC) is umbrella body for the 15 city chambers all over Ethiopia.</p> <p>ECC takes the prime role of facilitating marketing linkages with in the country as well as to the export market by information exchange and organization of trade events /trade fairs, exhibitions and bazaar/.</p>
Ethio-International Footwear Cluster Cooperative Society (EIFCCOS)	<p>Legally registered in 2006, the Ethio-International Footwear Cluster Cooperative Society Ltd. (EIFCCOS) was established integrating approximately 1,000 micro, small and medium scale footwear producers and raw material suppliers (more than 3,000 workers in total) from the informal sector.</p> <p>EIFCCOS has an objective to:</p> <ul style="list-style-type: none"> • Strengthen the output and performance of the member enterprises to be successful in the local and global markets. • To provide credit and saving services to the members. • To gather support from the government particularly on the issue of infrastructural and financial problems that are prevalent in the Merkato Cluster • To develop raw materials supply & marketing arrangements that are more efficient • To develop market outreach & promote export of quality shoe to the sub-regional and the international markets.
Ethiopian Competitiveness Facility, (ECF)	<p>The objective of the project is to facilitate increased participation of the private sector in the Ethiopian economy by creating conditions for improving productivity and export competitiveness.</p> <p>The ECF will have four windows; the Export Development window, the institutions that support export development Window, chambers of commerce and sectoral associations & the new window introduced to support firms currently not exporting and/or indirect exporters. The ECF is a time-bound</p>

	<p>scheme that shall operate for a period of three years ending on December 31, 2015.</p>
<p>All-African Leather Fair (AALF)</p>	<p>The general objective of the AALF is creation of business linkages and integration of Ethiopian and African leather industries with the rest of the world and its specific objectives included the following:</p> <ul style="list-style-type: none"> • To provide practical exposure of Ethiopian & African entrepreneurs in the industry to techniques of doing business with global partners • To enhance exports through business contacts between Ethiopian, African sellers of leather and leather products and buyers from around the world and integrate the continent's industry into the global market intelligence network • To create global market opportunities for Ethiopian's Africa's upstream leather goods industry. • To increase competitiveness of the Ethiopian, African leather industry by bringing representatives of the important players in the value chain together to a common platform where they forge the principle of working together in a Pan African Competitiveness context • To expose and encourage micro & small enterprises, cluster, women participation of market linkages • To improve performance and growth of the leather industry for more employment and the reduction of poverty
<p>International Development Partners</p>	
<p>UNIDO</p>	<p>A number of capacity building activities have been accomplished particularly in the areas of: -</p> <ul style="list-style-type: none"> • Training of Trainers (TOT). • Transfer of training methodologies and manuals. • Organising entrepreneurship development programmes.

Source: Author's own compilation from literature review (2015)

2.12 CHAPTER SUMMARY

This chapter discussed an overview of Ethiopian socio-economic condition with emphasis given to SMEs operating in the manufacturing sector. The general SME operating environment was described by using informations gathered from extant literatures. This rich data reveals that SMEs have a vital role to play in both business activities and employment in the country. A brief review of the major government policies towards international activities of SMEs was also presented. Overall, a variety of public policies are implemented to aid firm

internationalisation activities, most of which focus on support for export activities only. The chapter also presented a description of the general characteristics of SMES and the economic and business environment in which they operate. Therefore, it is in view of this contextual background that theories of firm internationalisation and theoretical perspectives that serve as ground for the theoretical positioning of the current study would be discussed in the following chapter.

CHAPTER 3

LITERATURE REVIEW

3.1 INTRODUCTION

Chapter two presented the context of this current study in perspective. The aim of this chapter is to present review of extant theories of firm internationalisation that served as theoretical bedrock for subsequent chapters of this study. The theoretical reviews served as a base for understanding the facets of the topic and guided in the formulation of research questions and development of hypotheses as shown in chapter five. By reviewing these state-of-the-art literatures, this chapter positions the research study in the context of a vast amount of literature and past empirical works on the topic under study and helps in the discussion and conceptualisation of problems in the following chapter.

The chapter starts with the discussion of firm internationalisation concepts and internationalisation in SMEs perspectives. Then, main theoretical schools on firm internationalisation literature are reviewed to find up-to-date discussions on the construct of firm internationalisation. The literature is organised based on the theoretical development of the school of thought with underlining assumptions and relevance of each theory in understanding internationalisation of SMEs.

The next part presents internationalisation models of SMES and internationalisation modes common to SMEs. Alternative and competing models examined to position the current study in line with the broad scholarship in the field of international business. Then an integrated model that guides the current study will be presented. The chapter ends with summary of major theoretical perspectives that shape SMEs internationalisation.

3.2 THE CONCEPT OF FIRM INTERNATIONALISATION

Internationalisation is a term that has been used widely in the literature and is not only confined to exporting but also encompasses trade, cross-border clustering, collaboration, alliances, subsidiaries, branches, and joint ventures that extend beyond the home country environment (Singh, *et al.*, 2010). However, SMEs mainly internationalise through exporting due to the minimal business risks and the low resource commitment. Small Enterprises varied in their involvement in internationalisation and at which age of their life (Singh *et al.*, 2010), while many businesses are globalizing at an earlier age in comparison to previous decades (Andersson and Floren, 2011). Internationalisation is found to be a significant aspect of the maximisation of business opportunities and over the last few decades, many SMEs started it as a requirement of business success (Rundh, 2007; Saixing, *et al.*, 2009). Three approaches of firm internationalisation– the stage approach, the network approach and the born global approach – are frequently discussed in the literature (Hynes, 2010). Stage approach is the assumption that internationalisation occurs in a gradual manner in markets close to the domestic market.

Network approach posits that successful internationalisation is dependent on developing networks of business relationships to facilitate the internationalisation process (Hynes, 2010). While the stage and network approaches based on the assumption that firms become international subsequent to a period of operating in local markets, the “born global” or “global start-up” firm has a global orientation from the onset of its business (*ibid.*).

Numerous theories exist that serve to capture the internationalisation process of firms. All of these theories provide a specific approach that a firm should follow in order to be successful when entering foreign markets (Senik, 2010). The majority of theories on firm internationalization originated within the period 1960 to 1990 (Laanti, *et al.*, 2009). The first two theories, the Uppsala model and

Innovation-related model, reviewed in this study are generally described as the incremental or traditional models of internationalisation.

Extensive research conducted on rapid internationalising firms over the last few decades has prompted scholars to question the traditional internationalisation theories where firms internationalise incrementally (Pajunen & Maunula, 2008). This research showed that rapid internationalising firms are becoming a more frequent occurrence (Zhang, *et al.*, 2009) and these types of firms are functioning in almost all of the biggest trading nations. As a result, a completely new field of internationalisation, namely rapid internationalisation, emerged (Senik, 2010). The most significant concepts in rapid internationalisation theory are born global firms and international new ventures (*ibid*). Another important theory, namely international entrepreneurship, started with interest in international new ventures (Oviatt & McDougall, 2005).

In comparison with the traditional internationalisation models, which are built on a slow internationalisation process undertaken by large firms, the new venture model is built on rapid internationalisation undertaken by smaller firms in international entrepreneurship theory (Mtigwe, 2006). The transaction cost theory; the resource-based theory and Dunning's eclectic approach are other theories that are discussed in this chapter. Theoretical development has been based mainly on the stage models signifying that firms move through stages as they expand from being non-exporters to becoming dynamically involved in export markets, and can be recognised widely among three groups of firms (Leonidou, 2004):

Non-exporters: explicitly, companies currently not exporting who express a subjective view on barriers;

Present exporters: explicitly, companies currently engaged in export activities who experience problems during their day-to-day participation in overseas markets;

Ex-exporters: explicitly, companies that used to export in the past but no longer do so who see export barriers from their perceptual and experimental point of view.

The trend toward increased internationalisation of world markets emphasises the importance of understanding how firms behave and how they perform in international markets. An important research area has been firm internationalisation research and in particular a focus on internal and external determinants and barriers of internationalising firms. Most internationalisation studies focus on the outward processes associated with exporting, licensing, franchising and foreign direct investment, with exporting being the main mode of internationalisation for SMEs (Eusebio, *et al.*, 2007; Westhead, 2008). Due to such abundance this would be beyond the possibilities of the current study. Therefore, this study sets out to investigate only one, very relevant facet of internationalisation in detail that is internationalisation through exporting by targeting firms in one industry. Entry modes will be discussed later in this chapter. The next section views internationalisation perspectives through SMEs lenses.

3.3 INTERNATIONALISATION IN SMES PERSPECTIVE

Small business enterprises (SBEs) represent over 90% of private businesses, contributes more than 50% of GDP in most African nations (African Economic Outlook (AEO), 2011). It is argued that the ability of SMEs to internationalise can help enhance performance through access to foreign markets, technologies, and processes, (Hajela & Akbar, 2007). Though the study of SMEs in general has received a lot of attention, with scholars highlighting the problems of SMES in Ethiopia (Birkinesh, 2012; Abdurehaman, 2012; Kiros, 2012), none of them however looked at the perspectives on patterns of SMEs internationalisation and theoretical underpinnings. This predicament has inspired the need for this study on process and challenges in the internationalisation of SMEs in Ethiopia.

Globalization of business is often seen as synonymous with the rise of gigantic multinational corporations, and it is tempting to think that SMEs have only a

marginal role to play in this process. However, the share of SMEs (even the smallest ones) engaged in international activity is often much greater than the public or policy-makers assume it is and has been, at least before the global downturn of 2008–9, growing rapidly (Lloyd-Reason and Mughan, 2006). There is also evidence of what researchers call the 'born global' effect: more than half the population of entrepreneurs in developed countries, and around a third in developing countries, go into business with plans to attract at least some income from overseas (Bosma and Levie, 2010).

Moreover, the rise of e-commerce has accelerated these trends. There is evidence that it has reduced risks associated with internationalisation of SMEs by improving their access to market information (Mathews and Healy, 2007), and providing unprecedented marketing and communication capabilities (Jaw and Chen, 2009). Internet use has also challenged the traditional 'stage' view of internationalisation, by allowing SMEs to enter foreign markets in non-standard ways (*ibid.*). Internationalisation is not confined to imports or exports. In fact, SMEs are increasingly involved in more complex international relationships, from licensing and subcontracting agreements to exchanges of technology, foreign direct investments and joint ventures. Nevertheless, the current study only focused on export as internationalisation strategy of SMEs.

Internationalisation has become an important strategy for firms that want to achieve further growth, but it is also very tough to survive in the international market (Zeng, *et al.*, 2009). The internationalisation process for SMEs can be time consuming, expensive and drain firm resources. Therefore, it is important for an SME to make the best decision in terms of the time to enter a market, the market to enter and the mode to enter a country by (*ibid.*). The barriers for internationalisation discussed in the next chapter would be useful to help a firm in making the best decision.

It is possible to recall that, International business had in the past been considered an exclusive area for big and resourceful companies. Advances in information, communication and transportation technology, and globalization

of markets, have changed this, and smaller businesses are becoming active in the international markets. While SMEs' engagement with the global economy is a complex process and generalisations can be misleading, research on business internationalisation has established some reliable facts:

- SMEs and start-ups tend to be more internationally focused the wealthier and smaller their domestic economy (Bosma and Levie, 2010).
- Internationally active businesses are more likely to be, or to grow into, very large firms (Di Giovanni, *et al.*, 2010). Even in fairly large economies, SMEs typically have no option but to export if they wish to grow substantially (Blackburn, *et al.*, 2008).
- International activity can spur SMEs to upgrade their human and technological capital in order to meet the demands of supply chain partners, thus improving productivity (OECD, 2008). This is particularly true of SMEs in low income countries (ADB, 2009).

It is with this background that the theoretical underpinning of the current study is discussed in the following section.

3.4 THEORETICAL FRAMEWORK

Preliminary review of literature implies that while internationalisation has been a key issue in international business during the last four decades and despite considerable progress in disclosing the nature and cause of internationalisation, a comprehensive 'theory of SME internationalisation' is still out of reach (Rundh, 2007).

Even in terms of definition, there are various definitions of internationalisation being used by researchers and it varies depending on the interest and phenomenon of the study. It has been described as the process of adapting firms operations (strategy, structure, resource) to international environments (Eusebio, *et al.*, 2007). Other definition describes internationalisation as a gradual process where by a firm develops a network of global trade

relationship. Milesi, *et al.* (2007), then looks at most of the literatures on internationalisation and summarises it as a process through which a firm moves from operating in its domestic marketplace to international markets.

By the same token, several theories from international business research have been used to describe and explain aspects of Internationalisation. Numerous authors (Johanson and Valneh, 2009; Andersson, 2011), divided literature on firms' internationalisation process into two categories of theories: the Economic Approach and the Behavioural Approach.

The Economic Approach originates from Trade Theory and the Economics of Industrial Organisations, and focuses on the company and its environment. According to this approach, firms are quasi rational in their investments choice and the decision maker will opt for the optimal solution, thanks to his rationality and his access to perfect information (Buckley, *et al.*, 2007). In this kind of approach the choice of location for foreign investment is a deliberate decision, it is efficiency oriented and conceived by the primary goal of profitability (*ibid.*). Among the best known theories following the Economic Approach are Dunning's Eclectic Theory, the International Product Life Cycle Model and the Transaction Cost Approach. Since these theories mainly focused on large firms, detailed explanation is beyond the current study. Only a bird's eye view of these theories discussed in the current study (*ibid.*).

Early theories view internationalisation as a stage, where firms follow a step by step process that starts from no international activity and goes on involving in some international activity and then ends up owning subsidiaries abroad. Such is the case of the Uppsala model. Johanson and Mattsson (2009) introduced 'The Network Approach' that highlights the importance of relationships with suppliers, customers and market that can stimulate or help a firm to go abroad. Nowadays, advancements in technology and decline in trade barriers are driving the world economy to become integrated and rapid globalisation is enabling SMEs to internationalise in a quicker yet effective manner. As a result, some scholars question the validity of the Uppsala model and the network

approach, and argue that the model is outdated and no longer explain the internationalisation of today's firms as more firms nowadays are international from inception (Kazem and Heijden, 2006; Grimes, *et al.*, 2007).

Traditionally, the study of firm internationalisation has tended to focus more on larger firms, with smaller firms receiving comparably less attention from scholars (Johanson and Vahlne, 2006; Janjuha, *et al.*, 2012). Although precise definitions of firm size classifications tend to vary, there is now growing acceptance that smaller firms are becoming increasingly active on the international stage (Nummela, *et al.*, 2006; Jones, *et al.*, 2009).

Internationalisation theories endeavor to explain how and why firms engage in overseas activities and more specifically how the dynamic nature of such behavior can be conceptualised. There are different theories and approaches on the factors influencing internationalisation. The two main streams of theories in internationalisation process are based on the economic school and the behavioral school (Leonidou, *et al.*, 2007). From the economic school, eclectic theory is the dominant theory, which combines economic theories of monopolistic competition, location, and transaction costs (Johanson & Vahlne 2009; Littunen, 2010). According to the eclectic paradigm, the main determinants of FDI are ownership advantages, location advantages, and internalisation advantages (Luostarinen, 2006). The behavioural school consisted of Aharoni's foreign investment decision processes in multinational firms, incremental stage models (e.g. Uppsala's model) of internationalisation, and innovation related models. More recently, international entrepreneurship theory is increasingly utilised to explain the behaviour of firms that internationalise their business not incrementally but within a short time period from inception (usually within three years) and proceed to utilise higher commitment entry modes from the outset (Jones, *et al.*, 2011).

Previous research on internationalisation of SMEs indicates that internationalisation decision is affected by a range of factors related to the entry decision, such as entry mode, entry timing, product/service adaptation,

and network partners (Neupert, *et al.*, 2006; Naldi, 2008; Nik ab, *et al.*, 2011). Seifert and Machadoda (2007) wrote that internationalisation can be influenced by external and internal variables. Table 3.1 presents aspects key variables emphasised under Economic and Behavioural approaches.

Table 3.1: Internal and External Variables Common to Economic and Behavioural Internationalisation Theories

The main variables the internationalisation process influenced by	Economic Approach	Behavioural Approach
Internal Variables	Ownership advantages Tacit knowledge Product characteristics Communication ability	Experiential knowledge Learning
External Variables	Location advantages Comparative advantages Industry characteristics Uncertainty Government intervention Opportunism	Psychic distance Geographic distance Cultural differences Inter-organisational networks

Source: Adopted from Seifert and Machadoda- Silva (2007)

Notwithstanding the foregoing theoretical discussions, internationalisation strategy of firm's requires different theories to explain internationalisation of firm's behaviour in different situations. Those who are in the early stage of internationalisation differ from those who are more experienced international firms. Furthermore, what firms in mature industries face is much more different than what firms in growing industries experience (Andersson, 2008 , 2011). Thus, it would be pertinent to incorporate different theories and approaches in the internationalisation of the firm relevant to our understanding of the internationalisation of SMEs. Consequently, this study draws on different internationalisation theories and approaches pertinent to the study of the internationalisation of SMEs by considering the incremental approach, innovation model of internationalisation, international entrepreneurship and the networking approach as well as resource based view.

Accordingly, the researcher reviewed frequently cited theories in international businesses, entrepreneurship, international marketing literatures. Firstly, the transaction cost theory and Dunning's eclectic approach are discussed. This is followed by discussion on the incremental or traditional theories of Uppsala and innovation related theory. This is followed by discussion on theories of rapid internationalisation. The latter includes the born global or international new venture theory and theory of international entrepreneurship. Lastly, the resource-based theory is discussed.

3.4.1 TRANSACTION COST THEORY

The idea of the transaction cost theory comes from the initial work of a British Economist Ronald Coase in his article on the nature of the firm in 1937 (Poole & De Frece, 2010). Accordingly, the firm must decide whether certain activities would be lodged within the firm or outsourced according to the price mechanism. The economy is coordinated by the price mechanism, which dictates the direction of production. Outside the firm, the price mechanism is coordinated by a series of exchange transactions in the market. Inside the firm, these exchange transactions are ignored and the entrepreneur becomes the coordinator that directs production. However, there is a cost of using the price mechanism. It is better for a firm to enter into a long-term contract since the risk and cost of repeatedly entering into short-term contracts with partners is avoided. Therefore, a firm will emerge when a short-term contract with a partner is not satisfactory. The firm will internalise production and the entrepreneur directs production, which saves marketing cost. It is assumed that the entrepreneur can operate at a lower cost because he/she gets the factors of production at a lower price than a market transaction (Poole & De Frece, 2010).

Many authors have built their stances on Coase's work to develop the transaction cost theory with the most notable being (Poole & De Frece, 2010). Out of these articles, emerged that the basic principle of the transaction cost theory is that the firm will shift low cost activities to the firm itself. The transaction

cost theory is centered on cost and how cost influences decisions of a firms' market entry and mode of entry. The cost in the transaction cost theory is the cost that it takes to "run or govern the system" This includes search and contraction cost (ex ante cost) as well as monitoring and enforcement cost (ex post costs) (*ibid.*).

The transaction cost model, when addressed through a general perspective has three issues. The first issue is known as the make-or-buy decision (Rugman and Verbeke, 2005). The make-or-buy decisions will show the firm's position related to vertical integration. The second issue is about management having the task to design multiple interfaces with the external environment. This is where the management has to decide whether the relationship that the firm has with customers and suppliers will be similar to what it is in the home country. The third issue is about the internal design of the organisation. This entails how the foreign subsidiaries network will be structured (*ibid.*).

Since the current study's theoretical underpinning is behavioural perspectives the transaction cost theory derived from economics thought is not relevant for this study. Thus, detailed explanation of this theory is beyond the theoretical scope of this current study.

3.4.2 DUNNING'S ECLECTIC PARADIGM

Dunning's eclectic paradigm is also known as the OLI (ownership, location and internalisation) approach (Pitelis, 2007; Stoian & Filippaios, 2008). In 1976, the idea of the eclectic paradigm was presented for the first time by John Dunning at the Nobel Symposium in Stockholm. The purpose of the eclectic paradigm was to provide a holistic framework to discover and evaluate the significance of aspects that influence the firm production in foreign markets and the growth of such production. The eclectic paradigm, in essence, determines the structure, pattern and degree of international production through the use of advantages in ownership, location and internalisation. This is very important since firms need a way to increase or continue profits under rising competitive

pressure (Cleeve, 2009). The eclectic paradigm of international production is a combination of several theories such as trade theory, location theory, organisational theory and the theory of the firm (*ibid.*).

However, the initial purpose of the eclectic paradigm was not give rise to a number of theories or address to a certain extent different questions. It was rather developed by Dunning as a theory that presented an analytical framework to assist analysts in choosing the most relevant theory for their empirical investigations. The eclectic paradigm has played and is still playing an important role in the literature. This could be ascribed partly due to its paradigmatic nature, and the power of its supporters to incorporate and suggest new ideas and developments (Pitelis, 2007).

The eclectic theory has a general and specific form. In the general form, it is limited in a sense that it can only give an insight into international production and the individual behaviour of firms, although it is very valuable in explaining the motivation for international production and organisational matters associated with the activity of multinational enterprises (Cleeve, 2009). In its specific form, the eclectic theory is useful since it can point to which internationalisation theory should be selected depending on the advantages that a firm possesses (*ibid.*).

This theory assumes that for successful internationalisation three things must be fulfilled *viz.*: ownership, location and location advantages. If it is assumed that the ownership advantage condition is then it will be beneficial for the firm to internalise its ownership advantage instead of using an external mode. An ownership advantage does not necessarily have to be used internally, but it can also be used externally by means of the sale of a patent or licensing agreement. It will make sense to give a license to a foreign firm to produce the firm's product abroad if tariffs, transport costs, the setup cost of a foreign production facility and transaction costs are too high. The firm has an internalisation advantage if it is better to move the applicable activities to the

inside of the firm than to enter into a licensing agreement with a foreign firm (Cleeve, 2009).

The third condition that has to be satisfied is location-specific advantages in the host country. This condition is needed since it otherwise would not be profitable to move value-adding activity into a foreign market. Location advantages are country-specific factors associated with the market involved and motivate a firm to invest in a particular market (*ibid.*).

A start-off point in the theory is to examine the way firms engage in activities internationally. In essence, the firm has foreign direct investment, licensing and exporting as strategies to choose from. These three strategies are subject to the OLI advantages and will consequently influence the firm's ultimate decision. If a firm has ownership advantages, but lack location or internalisation advantages, the theory indicates that licensing will be the best way to handle international production. If in turn the firm possesses both ownership advantages and internalisation advantages, it would not be worthwhile to set up a new affiliate in a foreign market if no advantages are realised from being located in that specific country (Cleeve, 2009). The solution would be to export to the specific country. A firm can only implement foreign direct investment as a strategy if the firm possesses all three OLI advantages simultaneously (*ibid.*). Although ownership advantage is a necessary condition for both internalisation and internationalisation, it is not sufficient (Pitelis, 2007).

Table 3.2: The eclectic paradigm/OLI approach

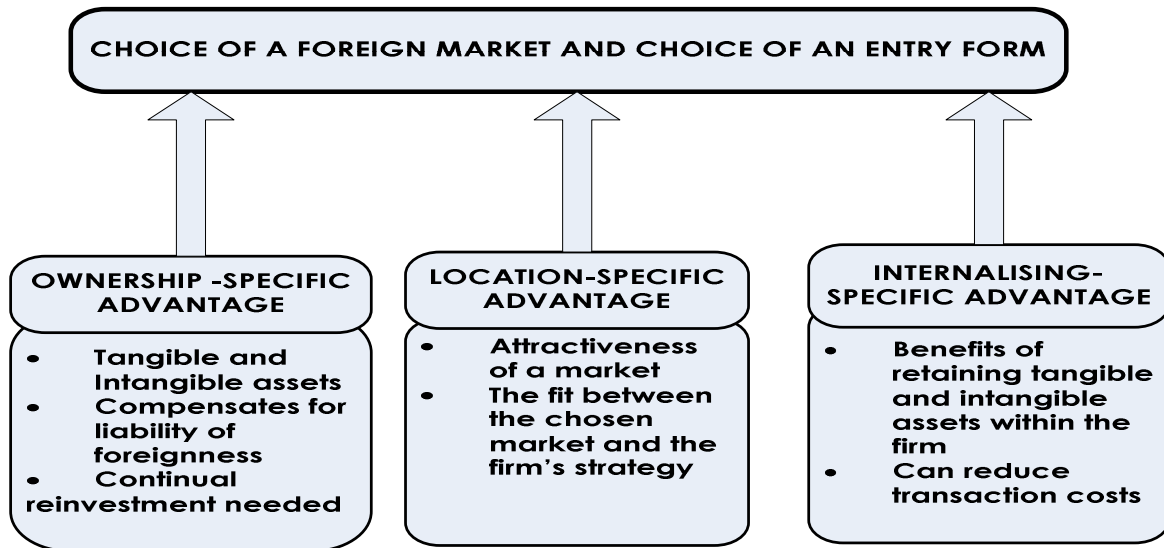
Ownership	Location	Internalization	Internationalizing Strategy
Yes	Yes	Yes	FDI
Yes	No	Yes	Exports
Yes	No	No	Licensing

Source: own compilation from literature(2015)

The above table shows that the only way a firm can choose foreign direct investment instead of other options is when all the OLI conditions are satisfied simultaneously. If a firm only has an ownership advantage, it will choose

licensing as internationalising strategy. Table 3.2 reveals that the success of every internationalising strategy is dependent on ownership advantages. To give a holistic view of the Eclectic theory all the three advantages are summarised and Figure 3.1 depicts these advantages.

Figure 3.1: Firm's specific advantages needed when entering foreign markets according to Dunning's eclectic theory.



Source: Adopted from Hermansdottir (2008)

However, due to its stringent requirements the applicability of the Eclectic paradigm is more compatible for multinational companies with capacity of foreign production. Since SMEs are weak in terms of resources and managerial ability to establish foreign production centers this theory is not relevant for internationalising SMEs especially at their early stages of international operation. Also, most of the theories focus on FDI, which is a resource-demanding kind of entry mode that tend to be less used by smaller firms that are claimed to be resource-poor. The OLI model is also criticised for a limited predictive power due to ignoring the objectives of the firm, the decision-maker and the surrounding environment (Mtigwe, 2006). Due to the aforementioned limitations and incompatibility of the Eclectic theory with the main aim of the current study the researcher prefers to give detailed emphasis towards more relevant behavioural theories frequently cited by previous scholarly works in the field.

Accordingly, the following section presents incremental theories of firm internationalisation.

3.4.3 THE INCREMENTAL INTERNATIONALISATION MODELS

The two major incremental models that describe internationalisation are the Uppsala model and the Innovation model (Ruzzier, *et al.*, 2006; Senik, 2010). Although the former was found in Sweden (Senik, 2010) and the latter in the North-America (*ibid.*), both have a similar approach to account for internationalisation in that internationalisation occurs in incremental steps and through different stages (*ibid.*). Incremental internationalisation of the firm is most closely associated with the Uppsala model (Andersen, 2011). The incremental stage models of internationalisation views internationalisation as occurring in stages and incrementally that is after exhausting domestic opportunities. The pace of internationalisation is slow and gradual. Internationalisation is taken as interplay where by firms incrementally build on their international market information and concurrently there is increasing commitment of resources to foreign markets (*ibid.*).

Thus, firms are assumed to begin internationalisation incrementally from low risk and low resource commitment entry modes by utilising indirect methods (e.g. export agent) to utilising high risk and high resource commitment entry modes (e.g. manufacturing in foreign markets). To begin their involvement from psychically close foreign markets to psychically far away foreign markets (e.g. Brewer, 2007). Psychic distance can be described as the sum of factors preventing the flow of information from and to the home market. Perceived uncertainty pertaining to the outcome of a given action is expected to increase with psychic distance. Examples of psychic distance are different in language, culture, political systems, level of education, level of industrial development and others. These incremental models are discussed in detail in the following sections.

3.4.3.1 THE UPPSALA MODEL OF INTERNATIONALISATION

The Uppsala model of internationalisation draws its theoretical base from earlier works on behavioural theory of the firm such as Aharoni's work on the foreign investment decision process and the theory of the growth of the firm (Altintas, *et al.*, 2011). According to the Uppsala model of internationalisation, firms gradually acquire, integrate and use knowledge about foreign markets and operations. Firms are expected to incrementally increase commitments to foreign markets (Johanson & Vahlne, 2009).

The model was based on the process and order that several Swedish firms seemed to follow during their internationalisation processes in the late sixties and seventies. The findings suggested that firms in their internationalisation processes incrementally increase their commitment on a foreign market by increasing their presence as time passes and knowledge of the market grows. Firms began expanding to markets that were most similar to their domestic market. These findings were contradicting with the present truth about internationalisation at that time (Johanson & Vahlne, 2009). In the first article of the Uppsala Model, it was argued that companies entered new markets with a low level of commitment, e.g. exporting via agent, establishing a sales subsidiary and launching a production facility. As their knowledge of the market increased, more resources would be invested. The model aims to explain management's decisions, on opportunity and risk taking, based on the firm's level of commitment to a foreign market. Furthermore it explains how the experience and learning processes within the firm affect management's decisions (*ibid.*).

According to Uppsala model, the internationalisation is "usually a long, slow and incremental process (from exporting to neighboring markets to investing in farther countries)" and "it is driven by (gradual and relatively slow) experiential market knowledge acquisition." (Vissak, *et al.*, 2008)

The model is based on four assumptions:

1. The firm rationally tries to increase its long-term profit

2. The firm is risk-averse
3. The firm has limited knowledge
4. Market knowledge is acquired through experiential learning (learn-by-doing)

To explain how a company expands within a country, the model uses the concept of “establishment chain”, a sequence of stages that a company has to take during its evolution, each of them corresponding to a higher level of commitment. The inexperienced firms are more afraid of the output of their investments and therefore try to limit their risk by committing few resources. As soon as they gain experience in the market, they are more willing to become more involved. The four main stages recognised are:

1. No regular export activities
2. Export via independent representatives (agent)
3. Sales subsidiary and
4. Production/manufacturing

Furthermore, Johanson and Vahlne introduced the concept of “psychic distance” to explain how the firms decide where their expansion will take place: according to the theory, companies initially move to countries that are close to their home base in terms of geographical and cultural distance, simply because their knowledge of those markets is higher.

Table 3.3: The Uppsala Model

Stage	Description
1	Firm exports not on fixed basis
2	The firm exports by means of a free agent acting as a representative of the firm
3	A sales subsidiary is launched in the foreign market
4	Production or manufacturing starts in the foreign market

Source: Authors's own compilation from literature

Table 3.3 presents the four stages of the Uppsala model. As illustrated by table 3.3, firms do not export on a fixed basis at stage one. The first move towards internationalisation by the firm is to begin exporting through an agent or a

representative of the firm at stage two. At this stage, firms will use a simple low risk and low commitment strategy, such as direct exporting (Senik, 2010). As time goes by, and stage three is reached, the firm will move towards a high risk and high commitment strategy (Senik, 2010) by launching a sales subsidiary in the particular foreign market. At stage four, production or manufacturing in the foreign country will start (*ibid.*).

Johanson and Vahlne (2009) identified two aspects inherent to the Uppsala model, namely knowledge and psychic distance. Knowledge about the internationalisation process and foreign markets improves progressively through the stages. Market knowledge is the information available about markets as seen by individuals involved in market operations (Johanson & Vahlne, 2009). As firms gather knowledge, the risks and indecision regarding internationalisation will eventually decrease as they progress into foreign markets. Firms will commit more resources in a market abroad if they have a deeper knowledge of that market since it would make the perceived market risk lower than usual (Ruzzier, *et al.*, 2006; Forsgren & Hagstrom, 2007;).

Experiential market knowledge is important because it is the motivating power behind internationalisation (Johanson & Vahlne, 2009) and it facilitates resource commitments. Experiential market knowledge is the knowledge a firm obtains when operating in a foreign market (*ibid.*). If experiential knowledge is applied correctly, it can help to minimize risk in the internationalisation process, as that the firm is able to acquire relevant information and create opportunities in the foreign market. The Uppsala model explains that commitment to internationalisation occurs in little incremental levels where firms increase their experiential knowledge progressively as they advance through the stages (Brennan & Garvey, 2009).

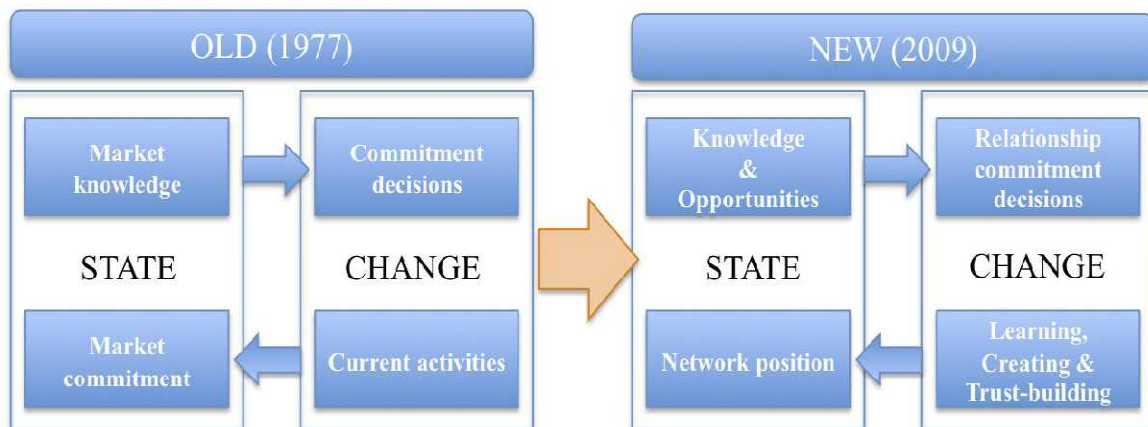
As stated by (Brennan & Garvey, 2009) one of the biggest barriers to internationalisation is the lack of knowledge. The lack of foreign market knowledge occurs when there are dissimilarities between the home and foreign market in factors such as culture and language (Johanson & Vahlne, 2009). The

knowledge barrier forces firms to first export to countries which they are familiar with and identical in business functions. The effect of these barriers can however be reduced by learning about markets abroad and business functions (*ibid.*).

The second factor inherent to the Uppsala model is psychological distance (Johanson & Vahlne, 2009). Usually, in internationalisation, firm operations start at home and it expand first to markets closest to home (i.e. markets that are in psychically close proximity to the home market) (Baronchelli & Cassia, 2008). As time passes, managers will gain more knowledge, which will make it possible for the firm to expand in to markets that are geographically and culturally distant from the home market (*ibid.*). Psychological distance is associated with aspects such as culture, politics, language, education and industrial development levels.

The Uppsala Model of internationalisation processes consists of four stages (Figure 3:2) which portrays how the learning and opportunity perception affects, and is affected by the current environment of the firm. The model is considered to be dynamic by its authors: the result from one process is the input for the next step of the process, which will provide input for the next one, and so forth. The circular relationship between the concepts states that the process does not have a beginning or an end. The model distinguishes between the *state* and *change* variables each is divided into two aspects. In the original model the focus was laid on a specific firm and its activities in the foreign market and that market's level of uncertainty (Johanson & Vahlne 1977). In the new model from 2009, relationships and networks are taken into account more extensively (Figure 3.2).

Figure 3.2: The internationalisation process model



Source: Johanson & Vahlne, 1977

Source: Johanson & Vahlne, 2009

As Figure 3.2 shows, the state variable considers aspects that are temporarily fixed by its nature, as for example a current situation or position. Since the internationalisation process takes place within the firm's network, the current network position is an important aspect. Previously this aspect only considered market commitment. In the updated version it is argued, that market commitment is too narrow, therefore the model includes the firm's current relations. The relations are characterised by the level of knowledge, trust and commitment (Johanson & Vahlne 2009). It is within this position the firm can develop knowledge and seize opportunities on the market. The second aspect on the state side of the model is knowledge and opportunities. Knowledge regards the current amount of knowledge, about the foreign market, within the firm. To make it even clearer that this knowledge is critical in order to recognise opportunities, the concept of *opportunities* was added. In contrast to the resource-based view and in accordance with the network view, the Uppsala Model from 2009 argues that the firm can recognise opportunities outside of its boundaries, i.e. in the context of its network. Hence, knowledge about internal capabilities is as important as knowledge about resources within the whole network (Johanson & Vahlne, 2009).

In the original model, the change aspects included commitment decisions and current decisions (Johanson & Vahlne, 1977). The word relationship has been added to commitment decision in order to clarify that it regards the firms' decisions of further commitment to relationships within a specific country (Johanson & Vahlne, 2009). In the updated version the term current activities has been replaced by *learning, creating and trust-building*. Current activities are still central but more focus has been put on the outcome of current activities. Experiential learning is part of both versions of the model; in the later version more forms of learning processes are added. However it remains the most important type of learning. Trust-building is important, since the network view has been added. Commitment to a network or to relations has to include a mutual trust in order to be rewarding (*ibid.*).

All aspects in the internationalisation process model are interlinked. A firm's current network position is the fundamental on which the firm gathers its knowledge. The total amount of knowledge is determining the firm's ability to perceive opportunities upon which relationship commitment decisions are taken. The decisions again lead to the firm's learning, creating and trust-building which will form a new position within the network of the firm as time passes. This cycle of actions and events is how the internationalisation process is understood by the authors of the Uppsala Model, starting with low commitment and high uncertainty, incrementally increasing commitment as knowledge increases (Johanson & Vahlne, 2009).

In general, the basic mechanism of the Uppsala model consists of state and change aspects, which in turn are divided into four important concepts. These concepts are experiential market knowledge, market commitment, current activities and commitment decisions (Forsgren & Hagstrom, 2007; Senik, 2010). The state aspects are experiential market knowledge and the firm's resource commitment. The change aspects are commitment decisions and current activities. The state aspects affect the change aspects (Ruzzier, *et al.*, 2006). Market commitment decisions are linked to market knowledge and current

commitments in the market. The model assumes sequential internationalisation because firms are uncertain about internationalising due to the lack of knowledge, information and experience about foreign market (Senik, 2010). The change aspects make that market knowledge is increased and more resources are committed to foreign markets (Ruzzier, *et al.*, 2006).

The Uppsala model however, is criticised because it cannot fully explain the internationalisation process of the firm. It is hard to get a full grasp of the different stages of the model, and it makes a complex process look simple. Moreover, there are other concerns with the Uppsala Model. First, it has been argued that the Uppsala Model holds a defensive view on the international expansion of firms. International entry is seen as a 'shock' that might threaten the survival of firms; thus, internationalising firms seek to avoid uncertainty by committing more resources to international markets only in an incremental fashion (Sapienza, *et al.*, 2006). Foreign market knowledge functions as key regulator of this process. Second, the model focuses on market knowledge as the sole explanatory variable of the internationalisation process.

Apart from theoretical challenges, the empirical relevance of these models has also been questioned. An increasing number of empirical studies found evidence contradicting the stage models of firm internationalisation, as firms skipped stages. A fundamental inconsistency seemed to emerge between stage theories and the empirical reality of an increasing number of firms adopting a global focus from inception. Although a number of small firms follow the stage pattern, this is not the case for all small firms (*ibid.*).

A further concern of the Uppsala model is that firm investment will decline if the risk is too high to invest overseas (Forsgren & Hagstrom, 2007). The rapid internationalisation models overcome this shortcoming because they believe that functioning internationally provides opportunities. In the International entrepreneurship theory, discussed in the following section, entrepreneurs in new venture firms are not afraid to take risk and are willing to make strategic choices related to an aggressive internationalisation approach (Autio, 2007).

The main tenets of process or stage models state that SME internationalisation is part of an incremental process involving different stages as mentioned in the foregoing discussions. In these models, internationalisation is seen as a gradual process, in which a firm increases its commitment in foreign markets as it gains experiential knowledge. This implies that firm size, age and experience have a direct and positive relationship with the extent of internationalisation. Even if there are firms especially leather shoe factories that export to neighboring COMESA member countries, the trade volume is too few in terms of value of export. The main question is why Ethiopian firms do not penetrate the neighboring "developing" countries on such a scale based on the character of the product or services and the strategy of internationalising firms. In this respect the Uppsala model fails to explain this tendency.

Before proceeding to the innovation related theory, it worth discussing the relevance of stage model for Ethiopian Firms. As indicated in chapter two, the patterns of Ethiopian firm's international trade doesn't follow the old version of stages theory propositions. Export destinations countries are not psychically close countries, China, Italy, and Germany are not close to Ethiopia in terms of culture. However, the latest version of the model (Johanson & Vahlne, 2009) is relevant to explain internationalisation behavior of Ethiopian firms. International trade direction of the country is governed by ideological and political ties the country established with those countries. SMEs follow the trend of established large firms. For example, garments and hand bags are currently exported to North American Markets under the umbrella of AGOA arrangements opened for competent exporters from Ethiopia.

Besides all prevailing critics, the Uppsala model remains one of the most noted theories of firm internationalisation (Forsgren and Hagstrom, 2007; Brennan and Garvey, 2009). The Uppsala model is considered a broader internationalization model (Forsgren and Hagstrom, 2007) than the innovation related model, since it is not strictly applicable to SMEs, which in turn can be an explanation for it being in such popular demand. The innovation-related model will be discussed

in the next section. Table 3.4 summarises the most important assumptions and influential factors of the Uppsala model.

Table 3.4: Major Assumptions and Influential Factors of the Uppsala Model

ASSUMPTIONS	INFLUENTIAL FACTORS
<ul style="list-style-type: none"> ○ Internationalisation is product of series of incremental decisions. ○ State of internationalisation affects perceived opportunities and risks, which in turn influence commitment decisions and current activities. ○ Representative firm is an organisation with a rational system that learns from its experience, developed in the local market. ○ Firm strives to increase its long-term profit, equivalent to growth, and low level risk-taking. ○ Lack of market knowledge and lack of established relationships are obstacles to development of international activities. ○ Time order of entry in different markets is explained by physical distance. ○ Market knowledge is acquired through experiences from current business activities. ○ Current activities are prime source of experience. ○ Commitment decisions depend on whether decisions are made in response to perceived problems or opportunities. 	<ul style="list-style-type: none"> ○ Experiential knowledge including perception of market opportunities & problems. ○ Market commitment includes two factors: amount of resources committed, and difficulty of finding alternative use for the resources ○ Current business activities ○ Commitment decisions to commit resources to foreign activities ○ Physical distance ○ Uncertainty about internal and external changes of the firm and environment ○ Established relationships in foreign markets.

Source: Author's own compilation from literature review (2015)

3.4.3.2 THE INNOVATION-RELATED THEORY (I-MODEL)

Another stage and incremental model is the innovation-related model which differs from the Uppsala model in that it focuses on innovation (Senik, 2010) and it illustrates the internationalisation process as a step-by-step development instead of a dynamic process in the Uppsala model. Internationalisation is seen here as an innovative strategy for firms, as they often come to a point where

innovative strategies are needed to be able to perform abroad. The innovative capability of a firm refers to a firm's talent to develop new, creative ideas and products as well as processes to operate within foreign markets (Zhang, *et al.*, 2009). In other words, innovation means to think creative and operating in all areas. Table 3.5 presents frequently cited models of innovation related theories of firm internationalisation.

Table 3 .5: Review of Innovation-related Internationalisation Models.

Bilkey & Tesar (1977)	Cavusgil (1980)	Czinkota (1982)	Reid (1981)
<p>Stage 1 Management is not interested in exporting</p> <p>Stage 2 Management is willing to fill unsolicited orders, but makes no effort to explore the feasibility of active exporting</p> <p>Stage 3 Management actively explores the feasibility of active exporting</p> <p>Stage 4 The firm exports on an experimental basis to some psychologically close country</p> <p>Stage 5 The firm is an experienced exporter</p> <p>Stage 6 Management explores the feasibility of exporting to other more psychologically distant countries</p>	<p>Stage 1 Domestic marketing: The firm sells only to the home market</p> <p>Stage 2 Pre-export stage: The firm searches for information & evaluates the feasibility of undertaking exporting</p> <p>Stage 3 Experimental involvement: The firm starts exporting on a limited basis to some psychologically close country</p> <p>Stage 4 Active involvement: Exporting to more new countries – direct exporting – increase in sales volume</p> <p>Stage 5 Committed involvement: Management constantly makes choices in allocating limited resources between domestic and foreign markets</p>	<p>Stage 1 The completely uninterested firm</p> <p>Stage 2 The partially interested firm</p> <p>Stage 3 The exploring firm</p> <p>Stage 4 The experimental firm</p> <p>Stage 5 The experienced small exporter</p> <p>Stage 6 The experienced large exporter</p>	<p>Stage 1 Export awareness: Problem of opportunity recognition, arousal of need</p> <p>Stage 2 Export intention: Motivation, attitude, beliefs, and expectancy about export</p> <p>Stage 3 Export trial: Personal experience from limited exporting</p> <p>Stage 4 Export evaluation: Results from engaging in exporting</p> <p>Stage 5 Export acceptance: Adoption of exporting/rejection of exporting</p>

Source: Adopted from Senik (2010)

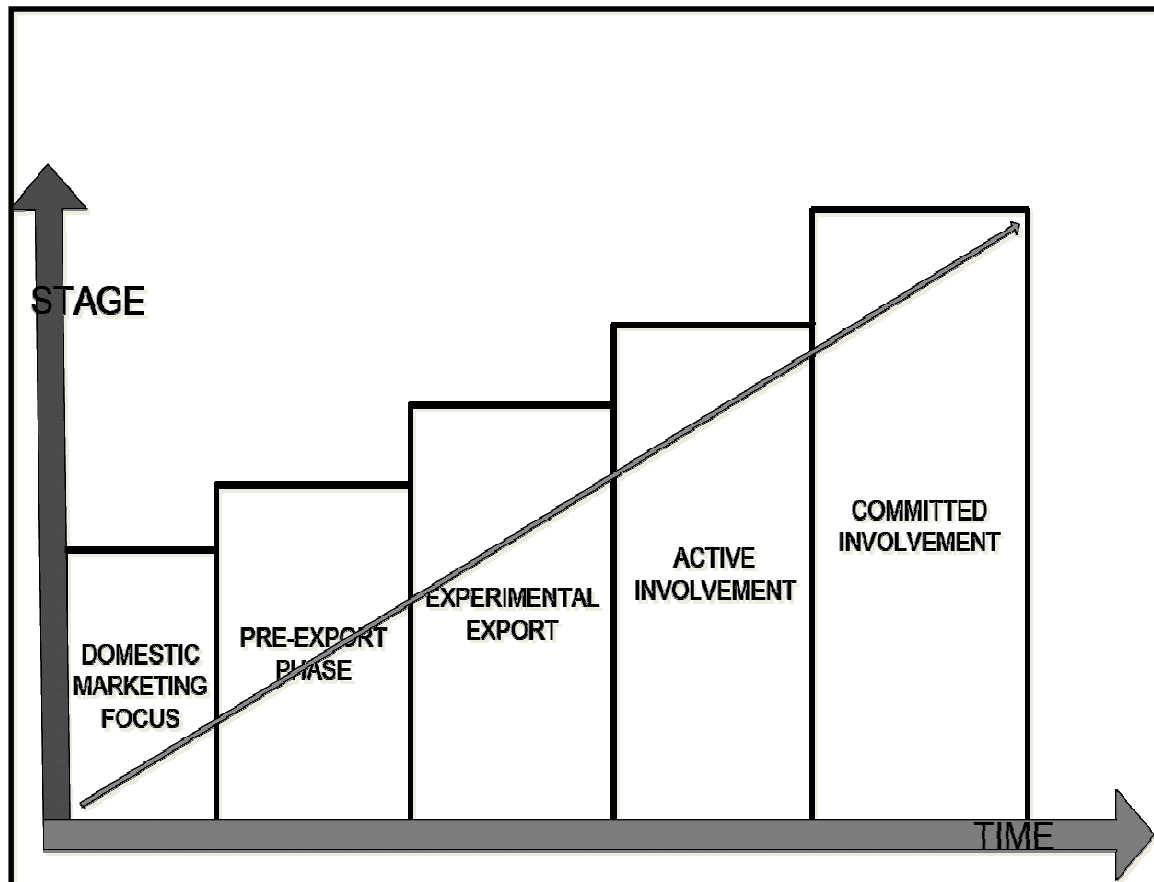
As shown in Table 3.5, in the study conducted by Bilk and Tesar of the export they identified In their study of the export behaviour of smaller-sized Wiscons in manufacturing firms, Bilkey and Tesar (1977: 93) cited in Senik, 2010, identified several stages for the export development processes of firms: Stage one consisted of a stage whereby management is not interested in exporting from the outset and hence, would not fill an unsolicited export order. Stage two consisted of management whereby would fill an unsolicited export order, but is not proactively explore the feasibility of exporting (reactive exporter). Stage three consisted of management whereby is proactive and explores the feasibility of exporting (this stage can be skipped if unsolicited export orders are received). Stage four consisted of the firm whereby exports on an experimental basis to some psychologically close country. Stage five consisted of the firm whereby an experienced exporter to the country it was exporting in experimental basis. Stage six consisted of management explores where by the feasibility of exporting to additional countries, which are psychologically further away (Chetty, *et al.*, 2007).

In the model, the firm is not attracted to exports at the first level. However, in the second level the firm gets somewhat attracted to the export idea and completes an unsolicited export order. This suggests that some stimuli must be present to make the firm somewhat attracted to the export idea. The stimuli can be internal or external. Internal stimuli can be network relationships and managers that have suitable experience of the firm and management. External stimuli that motivate a firm to internationalise can be competitive pressures domestically, government support and orders or inquiries from abroad (Tan, *et al.*, 2007).

The five-stage model by Cavusgil (1980) was developed with influences from the Uppsala model and Bilkey and Tesar's (1977) model. It highlights the learning process, outlining that different factors are shown to vary in importance within each of the five stages. The stages are described through company

activity characteristics and were operationalised using export shares. Figure 3.3 further depicts the stages model of Cavusgil (1980).

Figure 3:3 Five Stages Model of Internationalisation by Cavusgil (1980)



Source: Adopted from Senik 2010 based on Cavusgil (1980)

As shown in Figure 3.3 during the first stage, firms have a domestic market focus. The export/sales ratio is zero. The firm is only interested in the domestic market and does not export. Next follows the pre-export stage, where the firm searches for information and evaluates the possibilities to start exporting. The export/sales ratio is at or near zero. The third stage is experimental involvement, wherein exporting is still a marginal activity since the export/sales ratio varies from 0-9 percent. The firm starts exporting on a small basis. Physical and cultural distances are limited. The involvement of an experimental exporter is usually marginal and intermittent. The fourth stage is active involvement when international business is a normal activity and an important share, 10-39 percent, of the turnover is exported. There is a systematic effort to increase sales

through export to multiple countries. A suitable organisation structure is in place to support these activities.

The fifth and last stage involves committed involvement in exporting. The firm can now be called international, since it is heavily dependent on foreign markets having an export/sales ratio exceeding 40 percent. Managers are continually faced with choices for the allocation of limited resources to either domestic or foreign markets. Many firms are engaged in licensing arrangements or direct investment.

The innovation-related model of Reid differs from Bilkey and Tesar's model in that it has one less stage. Reid (1981) cited in Senik (2010), explains the export decision-making process by using innovation. Export development occurs in five successive stages. These stages may also occur simultaneously.

In stage one; the firm realizes there is a foreign opportunity. The firm can also be attracted to the foreign market in search of needs such as growth and expansion. Stage 2 occurs together with stage one and includes factors that influence the expectations in terms of the outcome of foreign expansion. Managerial factors likely to play a role here include expectations, attitudes and beliefs regarding exports. The attitudes must support the export process, resource commitment, foreign customers and countries. At stage three the firm only exports for a limited period, which leads to stage four where the results from stage three are evaluated. If the results are satisfactory, exports to the particular foreign market will become permanent. A permanent move will lead to added expansion and likely add to the firm using exporting as a strategy for firm growth. At the final stage, the firm adopts or rejects exporting. The firm will adopt exporting if management demonstrates an encouraging attitude directed towards exporting, there are opportunities abroad and if the firm has reserve resources required for the export process.

Conventionally, innovation has been viewed as a vital "*driver*" of economic growth and development (Rios-Morales & Brennan, 2009). By using knowledge

in creating "*innovations and competencies*", the firm can improve performance. Production cost can be cut by using more efficient processes (Kafouros, *et al.*, 2008). Larger firms are designated to reap the benefits from innovation because of aspects such as technical proficiency, economies of scale and the characteristics of the managers (*ibid.*).

Innovation is also important in the rapid internationalisation theory discussed in this chapter. Rapid internationalising firms do not possess proper organisational capabilities since they are not a long established firms that boast settled routines, practices and structures (Nordman & Melen, 2008). Firms that have the ability to sustain innovation will consequently generate new knowledge that will ultimately lead to the creation of organization capabilities. In a competitive environment, organisation capabilities will enable the firms' resources to perform efficiently.

The relevance of this theory for Ethiopian SMEs relates with the innovativeness of Ethiopian firms. Most SMEs thus start exporting to neighboring countries. The combination of geographical proximity, in many cases also cultural similarity and a limited psychic distance reduce the perceived risk of internationalisation for SME managers. Gradually, firms expand their geographic scope and start exporting to more distant countries.

Gankema, *et al.* (2000) cited in Senik (2010), have tested Cavusgil's innovation-related internationalisation model. They found that the international involvement of SMEs does indeed expand over time, thus supporting the stage theory. Although this theory holds in general, some SMEs have skipped some stages and progressed rapidly from one of the first to one of the last stages. Other firms have stopped the internationalisation process before reaching the final stage.

However, not all firms follow the traditional route to internationalisation and have found a useful alternative in rapid internationalisation. In view of the fact that incremental models function better with smaller firms that are less

experienced and have fewer resources, it is required that rapid internationalisation models are included when the internationalisation process is explained (Senik, 2010). This leads us to the discussion of theory of rapid internationalisation.

3.4.4 THEORIES OF RAPID INTERNATIONALISATION

It became clear by the 1990s that the traditional internationalisation models discussed in the previous sections could not explain the extent and speed of firm internationalisation (Naude & Rossouw, 2009). Oviatt and McDougall knew that the traditional internationalisation theories were to a certain extent applicable to most slow internationalising firms, but they noticed there were also firms that internationalised rapidly. This warranted a different theory and as a result, research in rapid and entrepreneurial internationalisation followed (Oviatt & McDougall, 2005).

This was due to the fact that, Firms that operate internationally from their inception are becoming a more frequent occurrence (Zhang, *et al.*, 2009). These firms are called early adopters of internationalisation and are functioning in almost all of the biggest trading nations. Accordingly, extensive research produced on rapid internationalising firms over the last few decades has prompted scholars to question the traditional internationalisation models, where firms internationalise incrementally (Pajunen & Maunula, 2008). In the traditional internationalisation models of Uppsala and innovation, firms steadily construct a stable position in their domestic market before going international. In contrast to the traditional theories, born global firms ignore an established domestic market. Instead, they aspire to access new markets abroad from its inception in search of a competitive advantage in the way it uses its resources abroad (*ibid.*).

Born global firms internationalise at a rapid pace - usually within 3 or less years or less between the initial domestic establishment of the firm and its first entry overseas (Senik, 2010). Born global firms initially surfaced in countries with small

domestic markets (Knight and Cavusgil, 2004), but is now present in large numbers worldwide (*ibid.*).

Besides globalisation, the emergence of born global firms has been spurred on by global networks, which are facilitated by a borderless marketplace, global outsourcing, and an increase in demand for globally customised products and advances in technology. Despite these factors spurring on internationalisation, born global firms still lack experience and resources (Senik, 2010). The traditional view is that firms that have the ability to sustain innovation will consequently generate new knowledge that will ultimately lead to the creation of organisation capabilities. In a competitive environment, organisation capabilities will enable the firms' resources to perform efficiently. The problem is that born global firms do not possess a proper organisational capability since they are not long established firms that boast settled routines, practices and structures. Therefore, the knowledge the firms have, is the knowledge that originates from the individual that founded the firm (Nordman & Melen, 2008).

The most significant concepts in rapid internationalisation theory are born global firms and International New Ventures (Senik, 2010). These types of firms lack resources, function without a domestic market and enter foreign markets from their inception in search of a competitive advantage. Another important theory, namely international entrepreneurship, started with interest in international new ventures (Oviatt & McDougall, 2005). International entrepreneurship is defined as the process of discovering, enacting, evaluating, and exploiting of opportunities across national borders in pursuit of a competitive advantage (Senik, 2010). The next section presents each of these theories.

3.4.4.1 INTERNATIONAL NEW VENTURE THEORIES

As the extant internationalisation theories, such as the stage models, failed to explain the rapid internationalisation of certain firms, a new school of thought emerged with the research of Oviatt & McDougall (2005) on international new

ventures (INVs). These firms are international from inception. In a framework that integrates international business, entrepreneurship and strategic management theory, they explain the phenomenon. INVs are characterised by:

- Organisational formation through internalisation of some transactions
- Strong reliance on alternative governance structures to access resources
- Establishment of foreign location advantages
- Control over unique resources

Concept of International New Venture (INV) explains how companies with limited resources can achieve success at the international level. Oviatt and McDougall (2005) define international new ventures as “a business organisation that, from the inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in the multiple countries”. In short, international new venture can be described as an organization that is international from its inception. These firms use a proactive international strategy and makesignificant resource commitments to foreign markets, although this does not necessarily requireforeign direct investment.

Elements of international new venture existence are organisational formation through internalisation of some transactions, strong reliance on alternative governance structures to access resources, establishment of foreign location advantages and control over unique resources. Oviatt and McDougall article opened the debate about validity of other internationalisation theories, notably the Uppsala model or the stage theory of Johanson and Vahlne. In contrast to the stage theory, INVs bypass earlier stages of internationalisation and use higher entry modes when going abroad. By entering new markets, INVs can amass various knowledge and competencies, which in turn could lead to their higher profitability and growth in the future.

INVs can be divided into three groups according to the number of value chain activities and number of countries entered (Oviatt and McDougall, 2005):

1. New International Market Makers: these INVs are in fact typical export and import firms, which profit from their ability to address imbalances of resources and goods between countries. The most important and therefore often internalised activities are the systems and knowledge of inbound/outbound logistics. These companies can be further divided into Export / Import Start-ups (serving a few countries familiar with the entrepreneur) and Multinational Traders (serving many countries and constantly looking for new business opportunities).

2. Geographically Focused Start-ups: they serve a specialised need in a certain region, using foreign resources. As for the value chain, they coordinate several activities: it is this coordination that may be the source of their competitive advantage.

3. Global Start-ups: it is the most complex type of INV, as it coordinates various value chain activities in many countries. Nevertheless, if successfully established, they appear to have the most sustainable competitive advantage of all the INV types. They respond to globalization as well as make use of opportunities it provides.

International new market makers can be either export/import start-ups or multinational traders. These firms create new markets and exploit new opportunities before increased competition reduces margins. They build a competitive advantage on superior knowledge of markets and suppliers and a network of business associates. Export/import start-ups focus on serving a few countries, while multinational traders serve a large number of nations and constantly look for opportunities to expand their network.

Geographically focused start-ups use foreign resources to serve the specialised needs of a particular region. Their competitive advantage is in the coordination of multiple value chain activities. Global start-ups are the most radical manifestation of the international new venture. These firms respond to global markets by acting on opportunities to acquire resources and selling outputs in those places in the world where the added value is highest. The competitive

advantage of these firms is derived from coordinating multiple activities in multiple geographical locations. These international new ventures, once successfully established, have the most sustainable competitive advantage (Oviatt & McDougall, 2005).

According to Oviatt & McDougall (2005), cheap and easy communication technology and transportation allow small firms to take advantage of business opportunities in multiple countries, whereas this used to be the preserve of large, mature corporations. International new ventures can thus be globally competitive, despite their resource constraints. International new ventures are often found in volatile markets, have little or no experience and limited resources. This contradicts Johanson & Vahlne's (1990) stage theory.

The rapid internationalisation of some small firms has been driven by increasing homogenisation of foreign markets, increasing international business experience of entrepreneurs, availability of international financing opportunities and international mobility of human capital. Firms possessing unique assets may skip stages of international development, and for some firms internationalisation may not be an incremental process at all. These firms set up their activity targeting either a market that is global by nature or a niche with limited potential on the domestic market. Oviatt & McDougall (2005) thus argue that stage theories are less applicable in some situations, i.e. where technology, firm capabilities and the industry environment have changed radically. However, they may still apply to other firms and industries.

The stage theory and new venture theory have different underlying assumptions. While stage theory assumes *survival* to be the fundamental goal of the firm, new venture theory sees *growth* as the primary driver for internationalisation (Sapienza, *et al.*, 2006). According to stage theory, firms wait to expand internationally until they are either pushed by external circumstances or pulled by customer demands. In new venture theory, firms may see internationalisation as a strategic choice and an option for growth.

Early internationalising firms are confronted with a liability of newness. Young firms lack experience and may not have developed the routines and relationships needed to survive. Late internationalisation allows firms to assemble resources and gain experience before entering markets abroad. However, it can also allow inertia to develop (Sapienza, et al., 2006). The stage models claim that early internationalisation can have a negative impact on firm survival. On the other hand, examples of early internationalisation, especially in dynamic and high technology sectors, show positive effects of early internationalisation. For these firms, doing business in foreign markets is a catalyst for growth, and late internationalisation implies lost opportunities (ibid).

Sapienza, *et al.* (2006) argues that early internationalisation increases a firm's dynamic capabilities for exploiting opportunities in foreign markets. The author further argued that, while early internationalisation can indeed increase growth prospects, it may at the same time reduce the probability of survival. Although internationalisation eventually creates new capabilities, it also requires a large resource investment, thus reducing short term chances of firm survival.

Since the main objective of this current study is SMEs internationalisation in developing countries it is imperative to discuss Implications of the model for SMEs internationalisation. Thus, as seen from the definition of international new venture, this theory applies to newly-born companies in developing economy that start internationalisation as SMEs. One factor, which could promote the early internationalisation, is the existence and development of regional economic integration and resulting membership. The existence of regional economic blocks among African countries (such as COMESA in east Africa and SADIC among southern African countries) could potentially lower various (e.g., administrative) barriers of foreign market entry.

Furthermore, dismantling of tariffs contributes to reduction of internationalisation costs, which could be especially important for small and medium enterprises (as they often had to cope with resource scarcity). Besides limited financial resources, existence of abundant human resources, technology transfer and

development, and decreased trade barriers as well as international trade arrangements can support Ethiopian firms to enter international market within a short period of their establishments. SMEs innovation requires active and creative entrepreneur who plays a holistic role. The next section deals with the theory of international entrepreneurship due to the fact that entrepreneurs are the focal persons in all decisions of SMEs operations locally and internationally.

3.4.4.2 THEORY OF INTERNATIONAL ENTREPRENEURSHIP

Entrepreneurship could be considered a newly emerging research area and during the past two decades has become a subject of increasing attention and research (Styles and Seymour, 2006). There is no general accepted definition of the term “entrepreneurship”; however, according to Styles and Seymour (2006), it can be referred to as “individual opportunistic activity that creates value and bears risk, and is strongly associated with innovation”. Styles and Seymour (*ibid.*), after having analysed several definitions of International Entrepreneurship, maintained that the main key concepts related to this field of research are: behaviour that crosses national borders; discovery, enactment, evaluation and exploitation of opportunities; creation of value and unique combinations of resources.

The internationalisation phenomenon has been studied for decades and a series of meanings and definitions have been developed. In general, internationalisation is the growth of a firm outside its national boundaries; in more detail, it is concerned with the growth and development of foreign markets (Zucchella and Scabini, 2007).

In general terms, studies focusing on the internationalisation of SMEs can be divided into two research streams. The first, international entrepreneurship is especially interested in firms which are international from their inception (i.e. born globals and international new ventures. However, there is no commonly agreed and comprehensive theoretical framework for international entrepreneurship (Zucchella and Scabini, 2007) and some researchers have

been pointing out the need to expand the boundaries of international entrepreneurship to also include more mature firms. However, in their extensive literature review of international entrepreneurship studies published between 1994 and 2007, Keupp and Gassman (2009) show that 149 of the 197 articles they reviewed were empirical and, with two exceptions, all of these empirical articles used samples of small and young firms. The authors also show that almost all previous studies restricted their analyses to one or more of the following:

1. The propensity of small and young firms to internationalise
2. What small new firms that have internationalised do in order to penetrate markets and/or to survive and how their international performance differs
3. The demographic and cognitive characteristics of individual entrepreneurs or groups of entrepreneurs and their actions in the course of internationalisation

Recently, Gabriellson, *et al.* (2008) has presented a new classification of internationalising SMEs. Their research proposes that internationalising SMEs could be partitioned into the following classes:

1. Born Globals – SMEs with the potential for accelerated internationalisation and a global market vision.
2. Born Again Globals – SMEs that attempt to internationalise but achieve limited success, then turn to building up domestic support and later return to internationalisation by means of great leaps and a global vision.
3. Inward internationalisers – those SMEs that import intermediates and components from global sources and/or import R&D and internationalise rather rapidly through exports and/or in other ways.
4. The usual more slowly internationalising SMEs, a subset that includes small spin-offs from multinational enterprises.

Detailed analyses of these groups of SMEs are beyond the scope of the current study. Thus, future research can investigate the characteristics of these emerging groups of SMEs in global arena.

International entrepreneurship is basically focused on the internationalisation strategies developed by recently established entrepreneurial ventures (Filatotchev and Piesse, 2009). Further, the speed of internationalisation is another interest within this field (Oviatt and McDougall, 2005). More exactly, how quickly a company becomes involved internationally is believed to be directly explained by technological advances, the competitive pressure, and the entrepreneur. In addition, how much foreign market knowledge the entrepreneur has and the nature (strength, size, and density) of the entrepreneur's international network also affect the speed of internationalisation (*Ibid.*). Although firms lose independence compared to FDI, less time and resources are required and risk is reduced. Jones and Coviello define international entrepreneurship as "a rapid process of international expansion from inception, using a range of market entry modes in multiple markets".

Entrepreneurship can be thought of as the "origin of all businesses" (Johnson, *et al.*, 2008), and to be an entrepreneur implies transforming innovations into something that can be useful in practice. Entrepreneurship is complex and contextually dependent and an agreed upon definition is therefore not available. Two basic aspects of entrepreneurship are the age and size of the company. Entrepreneurial firms are often thought of in terms of younger, new ventures (Lu and Beamish, 2006). It also appears that SMEs sometimes are treated as synonymous with entrepreneurial firms. Further, some key characteristics of entrepreneurship include innovation of product or service offered; a proactive approach to conducting business (*Ibid.*); and, not least, an interest in the entrepreneurial leader. These entrepreneurs are often described as being opportunistic, growth oriented, resourceful, creative, visionary, risk-seeking and risk taking. Thus, research within the field of entrepreneurship often incorporates aspects such as innovations, proactive and risk seeking behavior into the research settings, terms that all originate within the field of strategic management (Oviatt and McDougall, 2005).

Research within international entrepreneurship shares with the internationalisation process model an interest in determining what relationships might exist between organizational knowledge, innovation, and international expansion (Filatotchev and Piesse, 2009). International entrepreneurship also ties in with the network model, as networking is believed to be somewhat of a prerequisite (Oviatt and McDougall, 2005) considering the entrepreneurial company's quest for growth by bringing innovative products/services to the international marketplace soon after being founded (Filatotchev and Piesse, 2009).

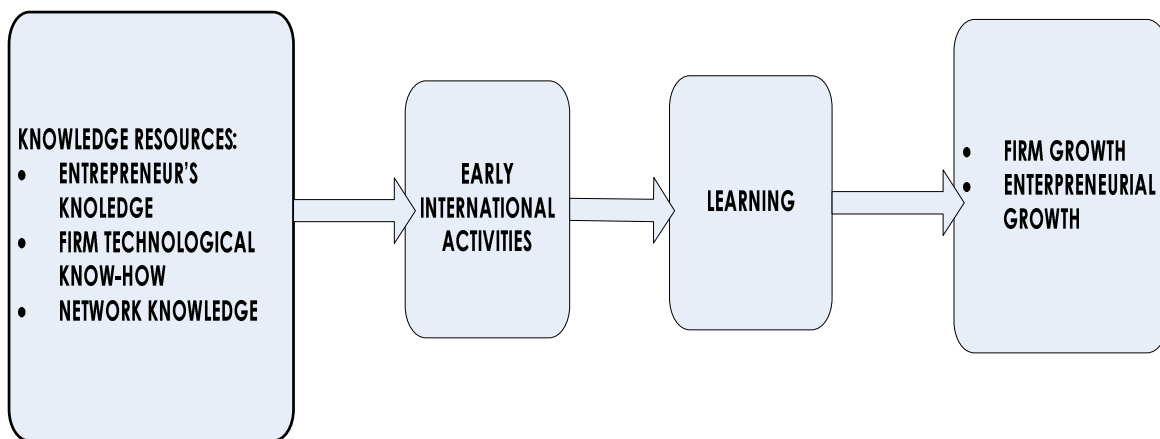
The international entrepreneurship research stream has challenged many of the traditional theories on international business (Andersson, 2011). International entrepreneurship (IE) is a research area at the intersection of international business (IB) and entrepreneurship theory with many important implications for international management, entrepreneurship, entrepreneurship and strategic management (Coelho, 2010). It is, however, a young field with only a little more than two decades of development (Jones, *et al.* 2011).

Although the economic and the process view provide useful knowledge of the behavior of international firms, they do not, however, provide full explanations. Based on prior studies, firms' entrepreneurs were quite different and hence, they were found to influence the firm's international processes in different ways (Andersson, 2011; Fariza, 2012). In contrast to what the incremental/Uppsala model of internationalisation predicts, there are firms that do not internationalise their business incrementally to psychically close markets after gaining increasing knowledge and experience. These firms have been referred to as international new venture. As mentioned in the previous section, International new venture is defined as a business organisation, which from the inception seeks to gain significant competitive advantage by the use of resources and selling outputs in multiple countries.

International entrepreneurship, however, is not only limited to international new ventures (INVs), as a recent review in the extant literature in IE indicates (e.g.

Jones, *et al.* 2011). In the recent review of the IE field, Jones, *et al.*, (2011), identify earlier studies focus to be on: a) international new venture and global start-up, other types, b) Patterns and process, influences of internationalisation; c) networks and relationships, network processes, social capital; d) performance, knowledge and capabilities of firms); and e) entrepreneurship, opportunity seeking in the process of firm internationalisation. Figure 3.4 presents the model of international entrepreneurship.

Figure 3.4: Model of the International Entrepreneurship Perspective



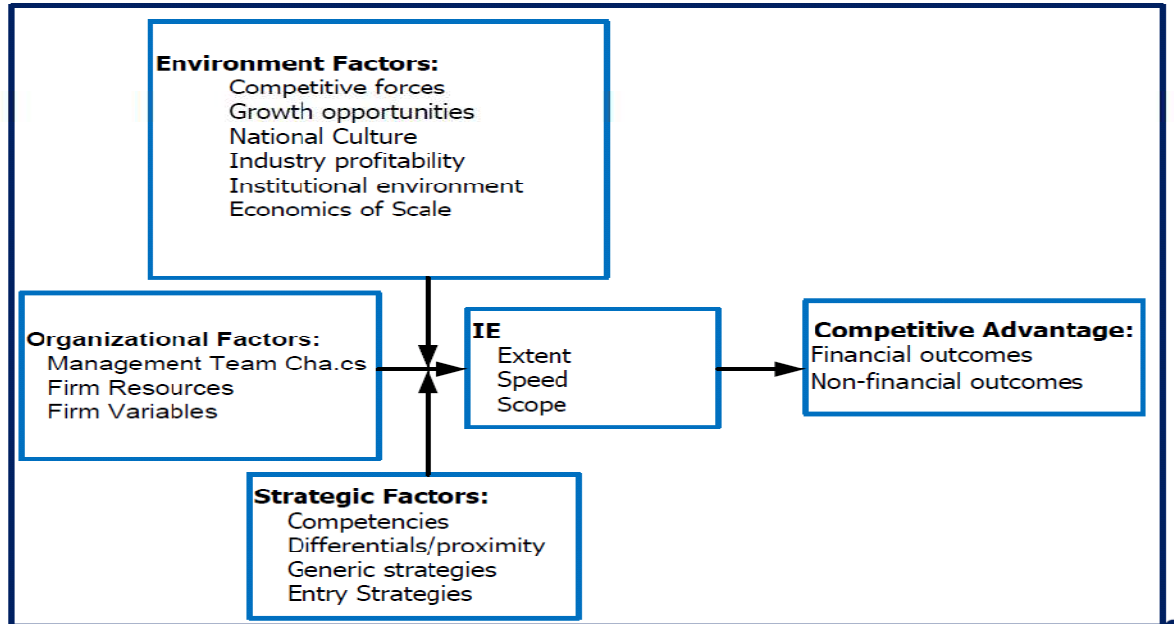
Source: Adopted from Naldi (2008)

The traditional theories were characterised by a risk-averse management that considers information difficult to attain abroad. In contrast, entrepreneurs in new venture firms are not afraid to take risks and are willing to make strategic choices related to an aggressive internationalisation approach. An aggressive approach is due to the entrepreneurs that founded the firm having the vision, competences and awareness to recognise profit opportunities abroad (Autio, 2005).

Since the traditional models could not explain the extent and speed of internationalisation, Zahra and George (2002) cited in (Senik, 2010), developed an integrated model of international entrepreneurship that shows how ventures are in pursuit of a competitive advantage. The model is centered on strategic, organisational and environmental factors which are divided into various

concepts. The model illustrates how many of these interrelated factors influence ventures (Senik, 2010). Figure 3.5 depicts the model.

Figure 3.5: Integrated Model of International Entrepreneurship



Source: Adopted from Zahra and George (2002) cited in Senik, 2010

The above figure represents a model to explain international entrepreneurship with specific reference to the speed of internationalisation. The model is set-off by discovery of an opportunity and the entrepreneur consequently enacts on the opportunity. The speed at which a firm internationalises is caused by four types of forces. These four forces will be explained accordingly.

First is the enabling force. Enabling forces ensure that rapid internationalisation can be achieved. Such enabling forces include regulatory advances (Fletcher, 2008), digital technology, a faster flow of goods and services to foreign markets, and improved communication (Oviatt & McDougall, 2005). The second force is the motivating force of competition. Competition motivates faster internationalisation since entrepreneurs have to take advantage of technological opportunities abroad or else competitors could react faster to a new product offering. The third force is the mediating force. The entrepreneur serves as the middleman and it is his/her responsibility to discover or enact the

opportunity in order to achieve internationalisation. An entrepreneur's personal characteristics such as international experience and psychological traits (e.g. risk-taking propensity) help that he/she can recognise opportunities. If entrepreneurs recognise opportunities, they can use the potential of transportation, communication and computer technology to make internationalisation possible (Oviatt & McDougall, 2005). The final and fourth force is the moderating force. The moderating forces come into existence after the first three forces have been completed. The moderating force is the knowledge that was used earlier and the characteristics of the entrepreneur's international network. In conjunction with the enacted opportunity and the enabling and motivating factors, the moderating force will determine how fast internationalisation occurs (Oviatt & McDougall, 2005).

The integrated model demonstrates the moderating effect of the extent, speed and scope of IE towards creating competitive advantage. This model shows that many interrelated factors contribute to SME international ventures, although the model does neglect networking. Zahra (2005) agrees that these orientations have substantial roles in stimulating and exploiting international entrepreneurial activities. The international entrepreneurial values and cultures do not stand-alone. According to various studies they are influenced by interrelated factors, such as firms, founders or entrepreneurs, the environment, market (Etemad, *et al.*, 2010), business processes and practices, decision-making style and strategic growth (Dimitratos & Jones, 2005).

A problem of the integrated model of international entrepreneurship is that it neglects networking (Senik, 2010). Mtigwe (2006) argues that an entrepreneurial firm can achieve internationalisation through networks. Entrepreneurs should use networks to their advantage since networks can provide vital opportunities and probably strategic alliances abroad (Oviatt & McDougall, 2005). Network relationships emerge through the informal and formal interaction of the firm's human capital (Senik, 2010). Such a relationship can help small entrepreneurial firms to acquire vital resources and foreign market knowledge. International

entrepreneurship and the network theory should be observed as two interdependent theories (Mtigwe, 2006).

It should be remembered that the international entrepreneurship is a new perspective which is “consolidated by various theories and models” inside International business and entrepreneurship (Senik, 2010). The entrepreneur is also a vital actor in another theory called the transaction cost theory. The theory is built around economic tasks such as production. The firm has to choose where it will be more cost-effective to perform production outside of the firm or inside the firm.

Finally, with specific reference to SMEs, Hilmersson (2009) stressed that internationalisation of SMEs is much more complex than what is assumed by International Entrepreneurship researchers. This is because of the fact that, most international entrepreneurship studies is that too much focus is on the individualistic efforts of the entrepreneur. In particular, according to the author, the analysis should aim at a full comprehension of the actors interacting with the internationalising firm, and to recognise that the internationalisation of SMEs very often can be an unplanned or reactive move. The following section covers the recently flourishing model of born global theory.

3.4.4.3 BORN GLOBAL THEORY

The Born Global theory is the most recent research area in internationalisation of SMEs. It has emerged in the wake of increased globalisation and hyper-competition at an international level. This theory represents a challenge to traditional theoretical models and approaches discussed in the previous sections.

In the last decade, several empirical studies have identified a growing number of companies that have been able to establish themselves in international markets very shortly after inception. This is indeed a serious challenge to gradualist processes. These companies are born with the purpose to operate in the international markets since ‘day one’. Usually three years is the milestone to

a 25% international market share (Ilheu, 2009). These companies are typically knowledge intensive, high tech driven and niche market oriented. They have been called 'Born Global' (Knight and Cavusgil, 2004).

Oviatt and McDougall (2005) have defined 'Born Globals' as "business organisations that, since their creation, seek to have significant competitive advantages in the use of resources and selling outputs in multiple countries". The rapid internationalisation of these companies is driven by the need to use, in a cost effective way, the highly valuable intangible resources such as new technologies, innovation, and international market know-how. Many of these companies start to compete in international markets very early because of their entrepreneur's vision and commitment. Furthermore, since 'Born Globals' do not have a natural border regarding their business, there is usually a clear proactive international strategy in place.

The rise of 'Born Global' is a very recent phenomenon and it is going to remain durable in the near future. One of the reasons is the growing specialisation and consequently the exponentiation of niche markets. Since majority of Ethiopian Firms follow traditional approaches this rapid internationalisation theory is not considered in the current study. Table 3.6. summarises main features of traditional and rapid internationalisation theories. The theories are different along six lines of distinctions: 1) motivation to internationalise, 2) international objectives, 3) international expansion patterns, 4) pace of internationalisation, 5) method of distribution, and 6) international strategies, as shown in Table 3.6. in the following page.

Table 3.6: Incremental and Rapid Internationalisation Models

Feature	Traditional Firms	Born Global Firms
Motivation to Internationalise	Reactive - Adverse home market conditions Unsolicited/enquiries orders Reluctant Management	Proactive - Global "niche" markets Committed management International from inception Active search
International Objectives	Firm survival/growth Increasing sales volume Gaining market share Extending product life-cycle born again global	Competitive advantage; First-mover advantage; Locking-in customers Protecting and exploiting proprietary knowledge
International Expansion Patterns	Incremental Domestic expansion first Focus on "psychic" markets Low-tech/less sophisticated markets targeted Limited evidence of networks	Concurrent Near-simultaneous domestic and export expansion Focus on lead markets Evidence of client followership Strong evidence of networks
Pace or Pattern of Internationalisation	Gradual/Slow Small number of export markets Single market at a time Adaptation of existing offering	Rapid/Speed Large number of export markets Many markets at once Global new product development
Method of Distribution/ Entry Modes	Conventional Use of agents/distributors or wholesalers Direct to customers	Flexible and network Use of agents or distributors Evidence of integration with Client's channels; licensing, joint ventures, overseas production.
International Strategies	Ad-hoc and opportunistic Evidence of continued reactive behaviour to export opportunities Atomistic expansion, with unrelated new customers/markets	Structured Evidence of a planned approach to international expansion Expansion of international networks

Source: Adapted from Senik (2010:56)

3.4.5 THE NETWORK THEORY OF FIRM INTERNATIONALISATION

The network approach has been increasingly utilised to explain the internationalisation of SMEs in general and international entrepreneurship in particular (Johanson and Vahlne, 2009; Chetty and Stang, 2010). The network perspective focuses on non-hierarchical systems where firms invest to strengthen and monitor their position in international networks. In their later

development of the Uppsala model Johanson and Vahlne (2009), incorporate the network approach to explain the internationalisation process of the firm. According to the network perspective, the internationalisation of the firm means that the firm establishes and develops its position in relation to counterparts in foreign networks. Network perspective draws on theories of social exchange and resource dependency. It focuses on firm behavior in the context of a network of inter-organisational interpersonal relationships. These relations can involve customers, suppliers, competitors, private and public supplier agencies, family, friends and others. Thus, firms, who seek opportunities abroad, may utilise their business network to internationalise their business (Johanson and Vahlne, 2009).

The network perspective was added to the original Uppsala Model, due to increasing globalism and new information and communication technologies (Johanson & Vahlne, 2009). Research has shown that the choice of country and entry mode is affected by the firm's network and its position within it. In the updated version of the Uppsala Model the business environment is considered as an international network of relations, due to the fact that boundaries between firms and markets became vaguer over the last decades (Johanson & Vahlne, 2009). The following core arguments by Johanson and Vahlne are based on the network theory. Companies take part in different networks and are linked in ways that differ in complexity and closeness to other firms. To be successful in foreign markets it is necessary to be part of a strong network. A firm's relations are created out of the social engagements with other firms, in which the involved firms sequentially and interactively develop their relation. As the relation evolves, firms accumulate knowledge and build trust. By participating in networks firms will expand their knowledge of markets and hence reduce uncertainty (Johanson & Vahlne ,2009).

The model further elaborated the point that network internationalisation puts the firm at a level which establishes positions in relation to foreign network counterparts/actors. Three main ways were brought forth in enhancing this,

namely; i) *international extension* - through establishing positions in relation to counterparts in national nets that are new to the firm, ii) *penetration* - through establishing positions and increasing resource commitments in those net abroad in which the firm already position and iii) *international integration* – through increasing coordination between positions in different national nets. Business networks approach on internationalisation is set of connected learning processes. Business network depicts a set of connected actors that perform variety of activities in interaction with one another (Vasilchenko & Sussie, 2011). The processes comprises of other actors in the network such as customers, suppliers, government and competitors.

Network relationships have been considered as key determinants in acquisition of foreign market knowledge-intensive by SMEs. A firms' network orientation and its subsequent finding of the roles and strengths of the players within the network enhance the firms' understanding in possible challenges and opportunities for the firm's activities (Juho, 2011). Knowledge is explored and exploited by learning from the actors within the network (*ibid*) and the wider the network the likelihood of a firm widening its bulk of knowledge with regards to foreign market, foreign operations and the possibility of increasing its foreign commitments and net income in the long term.

Moreover, (Vasilchenko & Sussie, 2011) a firm through the actors with in its network acquires knowledge relating to technology, marketing, cultural and other competitive enhancement information. Acquiring such essential elements leads to accelerated internationalisation of a firm and international entrepreneurial activities. But one can argue that, networks creation cannot be separated from entrepreneurship; they are natural part in identifying opportunities and also utilising resources that are not owned or controlled by entrepreneurs themselves. This is clearly displayed in definition of network given in this study as “inherent part of entrepreneurship viewed as a process by which individuals pursue opportunities without regard to the resources they currently control” (*ibid.*).

In summary, networks creation enhances firms' access to international marketing networks, e.g. distribution networks and help linked possible unknown distance business partners (Mainela & Puhakka, 2011). In this regard, the current strong inward FDI in the leather sector of Ethiopia and the newly established industrial clusters will allow for international network connections to be created.

3.4.5.1 APPLICABILITY OF THE MODEL FOR SMES INTERNATIONALISATION

In studies of internationalised SMEs from small mature markets, the business network was shown to be more important for any strategy changes (Agndal and Chetty, 2007), while the social network was shown to be of higher importance for new business activities in emerging markets than in mature markets (Danis, *et al.*, 2011). In the industrial network theory, however, the relationships dealt with are business relationships, which, when interrelated, constitute industrial networks. Business relationships were regarded to be built up through interactions within industrial networks, and thus the view of market-as-networks evolved (*ibid.*).

Within a globalized world, the network approach is regarded especially fruitful in order to study the increasing amount of cross-border business relationships, which are the result of more trade between countries and regions. However, with a market-as-network view, the focus is on potential and existing relationships within a borderless network, which makes the network the key object of study (Johanson and Vahlne, 2006). The network approach views internationalisation as a process of initiating, developing and maintaining international business relationships. It holds, in extreme, that country borders become redundant (Forsgren, *et al.*, 2005).

The Network approach improves the understanding in that it explains mechanisms to pass barriers in getting knowledge about new markets. Networks help entrepreneurs identify international opportunities, establish credibility, and often lead to strategic alliances and other cooperative strategies. After an entrepreneurial actor discovers or enacts an opportunity

and perceives the technologies that enable internationalisation and the competitors that motivate it, the entrepreneur uses established network links that cross national borders to explore where and how quickly the opportunity can be exploited in foreign locations (Oviatt & McDougall, 2005).

Networks play an important role in internationalising Ethiopian SMEs. Networks with Ethiopian government and its supporting SME agencies influence the decision to go international as they create awareness for international opportunities (UNIDO, 2012). The network relationships not only trigger and motivate internationalisation, they influence the choice of markets, and entry modes, help gain initial credibility, allow access to additional relationships and established channels, lower the costs and risks, and influence the pace and patterns (Zain, *et al.*, 2006).

In general, from the above theoretical perspectives, one can argue that, connecting with others allows SMEs to gain knowledge on foreign markets and access to required resources and capabilities. Knowledge about foreign marketplaces creates opportunities for the firm to internationalise. As the learning curve on international opportunities increases, firms are triggered and motivated to internationalise. Knowledge of a foreign market allows the firm to formulate strategic plans to accelerate the internationalisation process and ensure survival in long run. Firms not established as international players utilise networks to build international contacts and find suitable agents and this affects their market selection, foreign entry mode choice and product development. Where firms access global networking, local products can be globally integrated through “brand affiliation” with global branding, allowing the firms to gain familiarity with the global business environment and awareness of the international standard, requirement and quality.

The following section discusses the resource-based view, which focuses on internal issues involving the firms' resources and capabilities in competing at the international level.

3.4.6 RESOURCE-BASED APPROACH

The resource-based approach is a new and promising theoretical framework being applied to the internalisation of companies. The prevailing theories and models of internalisation of companies neglect to some extent the strategic view of decision-makers. Therefore, the resource-based view could be a useful theoretical framework for expansion to encompass the internationalisation of especially SMEs and their specific resources representing competitive advantages, allowing them to develop as well as successfully enter and operate in international markets (Ruzzier, *et al.*, 2006).

It is interesting to stress that RBV has an essentially inward-looking perspective. The environment is considered as external to the company, driving the attention of strategy studies from external (market or industry) resources to firms' internal factors (Sun and Tse, 2009). Indeed, the Resource-Based View attributes a secondary importance to external factors. Zander and Zander (2005) point out how this perspective could lead to underestimate the conditions influencing the firm's competitive advantage and its capability to create profits and sustainable long-term growth.

Very few studies based on the Resource-Based Perspective have assumed that internationalisation is a function of the interplay of both key internal and external resources (Ruzzier, *et al.*, 2006). The majority of resource-based studies did take into account only the peculiarity of big firms, while only a few past researches offered examples of resource-based studies of small firms' internationalisation.

Above all, the Resource-Based View is important in small firm's context, as it asserts that long-term firm survival is contingent on a business' unique offering, and on the growth of this uniqueness over time through developing the firm's core competencies (Kelliher and Reinl, 2009).

The resource-based view offers a theoretical basis for the importance of various types of resources to firms' overall competitiveness and performance. Since

there is a variety of firms and environments in which they operate, problems arise when the company's critical resources needed for internationalisation should be identified and defined. Resource-based theory also provides value-added theoretical explanation about the firm's diversification strategy. This direction is influenced by the nature of company's available resources and market opportunities in a new environment. That means companies incline to generate new products and enter the market where the required resources match the resources and capabilities available to company (Kelliher and Reinl, 2009).

The resource-based view posits that firms can achieve and sustain their competitive advantage if they possess tangible or intangible resources that are valuable, rare, inimitable and non-substitutable. These four characteristics of resources describe what considers strategic assets that, if properly mobilized, build and sustain a firm's competitive advantage and improve its performance. Among its various resource types, a firm's intangible resources are most likely to become strategic assets for developing competitive advantage because these resources are likely to be rare, valuable, imperfectly imitable and difficult for other firms to substitute (Roxas & Chadee, 2011). A firm's ability to attain and retain profitable market positions depends on its ability to gain and defend advantageous positions with regard to relevant resources important to the firm. Resource-based models recognise the importance of intangible knowledge-based resources in providing a competitive advantage.

Resources are frequently cited as a concern for small firms in their international activities. OECD (2009) found that limited firm resources and international contacts as well as lack of requisite managerial knowledge about internationalisation have remained critical constraints to SME internationalisation. These resource limitations, especially of a financial kind, seem particularly prevalent among smaller, newly internationalising firms.

The Resource based view (RBV) of internationalisation argued that the major decisions (for example, on country market choice, market servicing mode,

product-market strategies) are based on total consideration of all available resources and capabilities of the firm as well as environment (including competitive) realities. According to this view, achieving a sustainable competitive advantage is a result of possession of resources, which are unique (provide a barrier to duplication), and enable a firm to provide value. Also important in achieving competitive advantage, is the managerial capability in successfully deploying these resources into returns for the firm. Such resources may be internal for the firm, but can also be externally leveraged, for example, through network relationships. Consequently, international expansion by a firm represents an attempt to exploit valuable intangible resources, such as technological capabilities, well established brand names, or management knowhow. Such resources defy easy transfer but are deployable in multiple markets at low cost (Hsu & Pereira, 2008).

Furthermore, in the resource perspective it is pointed out that a firm's own internal resources and the external resources with the network determine the course of the firms' internationalisation. SMEs have traditionally been considered weak contributors to internationalisation due to financial and managerial constraints. As resource deficiency is a main characteristic of SMEs, Lin and Lawton (2006) argued that internal resource constraints can be one of the main determinants of a firm's decision to internationalise through its domestic inter-firm networks. By internationalising via its inter-firm network, the firm can acquire the external resources that are controlled within the network, which in turn improves performance in international markets.

As compared to larger firms small and medium sized enterprises (SMEs) are typically regarded as resource-constrained and the main rationale for studying SME internationalisation separately from the internationalisation of large firms is that SMEs are more likely to face resource scarcities, e.g. in terms of financial and human resources. The general belief is that such resource scarcities limit SMEs possibilities to act upon identified opportunities abroad (e.g. because internationalisation requires costly information and a need for planning) and

also make SMEs more susceptible to risks or to the potential negative effects of internationalisation. Empirical findings indicate that resource scarcities may indeed in some instances prevent small firms from internationalising. However, research has also demonstrated that even small resource-constrained firms can succeed in international markets and are able to access valuable resources through cross-border activities. Hessels (2008) point out that perceived constraints regarding access to finance are an important determinant for SMEs to pursue foreign markets as a means for accessing capital.

Hessels (2008) also found that perceived lack of new technology increases the probability for SMEs to internationalise as a means to access know how and technology. Overall, these results suggest that resource-constrained SMEs are pushed abroad by the desire to overcome internal resource deficiencies. The results also suggest that resource-constrained SMEs can be considered as entrepreneurial firms, which exploit internationalisation as a strategy for addressing current resource needs. To understand internationalisation behaviour in more detail Hessels (2008) recommend that existing theories that focus on explaining firm internationalisation should seek to incorporate a firm's resource deficiencies as well as a firm's internationalisation goals. Since in smaller sized businesses, the entrepreneur or team's characteristics drive organisational strategy, their desire for and enthusiasm toward overseas expansion generally results in higher international involvement.

Strengths Weaknesses Opportunities Threats The resource-based theory has in particular become a leading academic theory for explaining firm performance (Newbert, 2007). A firm's resources are set to generate a competitive advantage, which in turn offsets performance (Crook, *et al.*, 2008). Zhang, *et al.* (2009) state that a competitive advantage is the result of a firm that was able to develop resource capabilities progressively and ensured that it was nested within the firm and hard to duplicate. Therefore, capabilities can be considered a significant driver of firm performance (*ibid.*).

3.5 MODEL OF SMES INTERNATIONALISATION

No single established model can adequately explain the success of small firm internationalisation. However, firms can combine elements from different theories in their internationalisation process. Firms can develop firm specific advantages in foreign markets, while following a logical sequence over time and relying on relationships with foreign partners. Thus, the internationalisation behaviour of SMEs should be viewed as a holistic process, drawing on insights from various theoretical models, including neoclassical theories, stage models, international entrepreneurship theory and network theories discussed in the previous sections.

Based on the stage theories and the international new venture theory, one could assume that some SMEs internationalise progressively, following a cautious process, while others follow a path of rapid, early stage internationalisation. However, it has been argued that this distinction may be too rigid (European Commission, 2008). An SME can use a mix of different models in its internationalisation process. A firm's international activities may also be mutually supporting each other. Moreover, different forms of internationalisation serve different strategic goals, rather than stages in a gradual process. Especially when searching for know-how or technology, firms may set up an alliance with a foreign firm straight away, without passing a stage of direct export. In such cases, a combination of different forms of international activities may be more appropriate than successive stages in a gradual process. Therefore, the internationalisation process should be viewed as a holistic process. In such a holistic approach, different forms of international activities could be seen as a comprehensive set of strategic options.

In line with previous literature (Mathews and Zander, 2007; Kuivalainen and Saarenketo, 2012), the researcher used the term "pathways" to refer to a variety of strategies used in firms' internationalisation processes. These include several stages, often distinguished by scholars in terms of three dimensions, namely (i) *time*, referring to the rapidity and pace of internationalisation, (ii)

scale, viewed in relation to foreign sales, and (iii) scope, with reference to the number of countries in which a firm operates.

The first pathway describes traditional firms that internationalise slowly and incrementally to psychically and geographically close markets. The internationalisation of traditional firms comes about in an ad hoc manner, and is based on unsolicited orders and enquiries from overseas. The objectives of the internationalisation are mainly survival and growth. The product development of the traditional firms focuses first on the domestic market and only thereafter on foreign markets (Bell, *et al.*, 2004). Generally, the internationalisation of traditional firms follows the same pathway as described in the Uppsala model (Johanson and Vahlne, 2009).

Born global firms form the second pathway. These firms internationalise to several foreign markets simultaneously and rapidly, and are less influenced by psychic distance. This internationalisation process is related to INV theory, since in the born global case entrepreneurs seek international opportunities based on industry knowledge and existing networks (Oviatt and McDougall, 2005).

Born global firms are commonly defined as achieving foreign sales in a period of two to five years from their establishment, in addition to having at least 25 percent of their income from foreign sources, and operating in at least five countries. The third internationalisation pathway in Bell, *et al.*'s (2003) model is the born-again global pathway. Born-again global firms have previously tended to focus on the domestic market, but internationalise suddenly as a result of critical events, such as a change in ownership and management, a takeover by another company, or client followership.

In an empirical study, Sheppard and McNaughton (2012) used a 28-year domestic period as a criterion for born-again global firms. They found that born-again global are larger in size, and that they spend a smaller proportion of their resources on R&D than born global firms. In addition, it seems that born-again

global firms operate in more foreign countries than born global firms (Sheppard and McNaughton, 2012).

In summary, researches linked to SMEs internationalisation are seen as relatively new in comparison with internationalisation of multinational companies. Notably, a lot of attempts were made in order to clearly define SMEs "internationalisation" concept. Some scholars claim that internationalisation means a changing state. However, Ruzzier, *et al.* (2006) states that "some features are unique to internationalisation or, at least, there are significant degrees of difference between growth at home and growth internationally". Table 3.7 summarises the common models reviewed in the previous sections of this study.

Table 3.7: Summary of Firm Internationalisation Models

PERSPECTIVE	MARKET	FIRM	ENTREPRENEUR
APPROACH	ECONOMIC	PROCESS	ENTREPRENEURSHIP
UNIT OF ANALYSIS	The transaction or set of transactions	The firm: Behaviours (U-Model and I-Model) Relationships (Network)	Entrepreneurs as individuals carrying out entrepreneurial actions
BASIC ASSUMPTIONS	Markets are competitive Opportunistic behaviours Internationalisation decisions as consequences of a rational analysis based on transaction costs	Behavioural models: firms develop their activities abroad over time & in an incremental fashion, based on their knowledge development Relationship models: firms are interdependent & internationalisation is characterised by a combination of complementary & competitive relationships with other companies within the network	Internationalisation as a process of entrepreneurial behaviours manifested by events & outcomes in relation to time. Combination of innovative, proactive, & risk seeking behaviours crossing national borders & intended to create value in organisations.
MAIN EXPLANATORY VARIABLES	TCA Model: Asset specificity, uncertainty & frequency of transactions OLI Paradigm: Ownership, Location & Internalisation advantages	Behavioural models: Experiential Knowledge Relationship models: Network Relationships	Entrepreneur human & social capital

IMPLICATIONS	TCA: High transaction costs lead to internalisation of activities / integrate vertically (for example through wholly owned subsidiaries) OLI P: propensity to engage in international production increases when the 3 conditions have been satisfied.	Behavioural models: Additional market commitment based on increasing market knowledge and made in small incremental steps (from low to high psychic distance, from low risks entry modes to high risk ones) Relationship models: domestic relationships as bridges to other networks in different countries	Importance of time as a strategic dimension of internationalisation. Importance of entrepreneur's traits, characteristics and personal network of relationships
WEAKNESSES	Static Nature Difficulty in measuring TC Overlook the possibility of individuals making strategic choices Optimal choices depending on perfect information	Behavioural Models: too deterministic, firms' ability to make strategic choices denied and cooperative/intermediate entry modes not included Relationship models: no space for strategic decisions of individuals & lack of a predictive power.	Relatively new field requiring a unified conceptual model Interactions among different constructs (firms vs. entrepreneur's characteristics) need to be addressed.

Source: Author's own compilation from literature review (2015)

3.6 INTERNATIONAL MARKET ENTRY MODES

Internationalisation refers to a dynamic process wherein the firm shifts its operations (resources, strategy and structure) from the home market to the foreign market and adapts it in that environment (Senik, 2010). The most widely used definition of internationalisation is the movement of firm operations outside

national boundaries (Zeng, *et al.*, 2009). Melo and Valle (2008) stated that the movement of a firm's operations outside national borders can occur through trade. SMEs tend to internationalise through exporting and/or foreign direct investment (*ibid.*).

In terms of internationalisation, SMEs predominantly choose export as strategy. Exporting is considered the first significant step towards internationalisation and is the main way for SMEs to enter foreign markets (Stoian, 2006). Exporting is considered a future platform for other internationalisation strategies. It is the preferred internationalisation strategy since SMEs generally lack resources and the financial capability for foreign direct investment. Exporting can provide firms with more sales and market power, which suggest that this strategy tends to improve a SMEs' financial performance. SMEs can further choose between direct and indirect exporting. Direct exporting is a higher risk and commitment strategy that leads to higher profits while indirect exporting is lower risk and the profit is shared between intermediaries (Melo and Valle, 2008).

It is important to aware of the fact that the choice of entry mode depends on many variables such as: past experience, psychic distance, political/trade barriers, regulations, competition, size and growth of the target markets, control, distribution, committed resources, resources transferred and motivation as well as time limitations. Some of these variables can be influenced by the firm some of them are given by the environment of the firm. All these factors will be discussed in detail in the next chapter. Even if international market entry modes are many in view of merits and limitations, discussing all of the alternatives is beyond the scope the current study. Thus considering the appropriateness of exporting as entry mode for majority of SMEs in developing economies as indicated in the works of (Okopara, 2009) the next section presents exporting as strategy for international market entry.

3.6.1 EXPORTING

Exporting is the most popular, quickest, and easiest way for many small companies to become international. Because, opposed to other types of foreign market entry, it requires less commitment of organisational assets, offers superior flexibility of managerial actions, and engages fewer business risks (Leonidou, *et al.*, 2007).

Exporting is recognised as the least risky internationalisation strategy. It is a good strategy to test demand in a foreign market especially when available funding is limited. The *Internet*, often a missing market entry mode in older models increased its importance significantly over time. This was a fortunate and unexpected surprise for many companies, since Internet-marketing started out as a distribution channel for the domestic market. Necessary support for using the Internet as a distribution channel came from credit card and delivery companies (Cateora, *et al.*, 2009). However it must be stated, that certain products can be sold easier over the Internet than others and therefore it is not a panacea to go abroad.

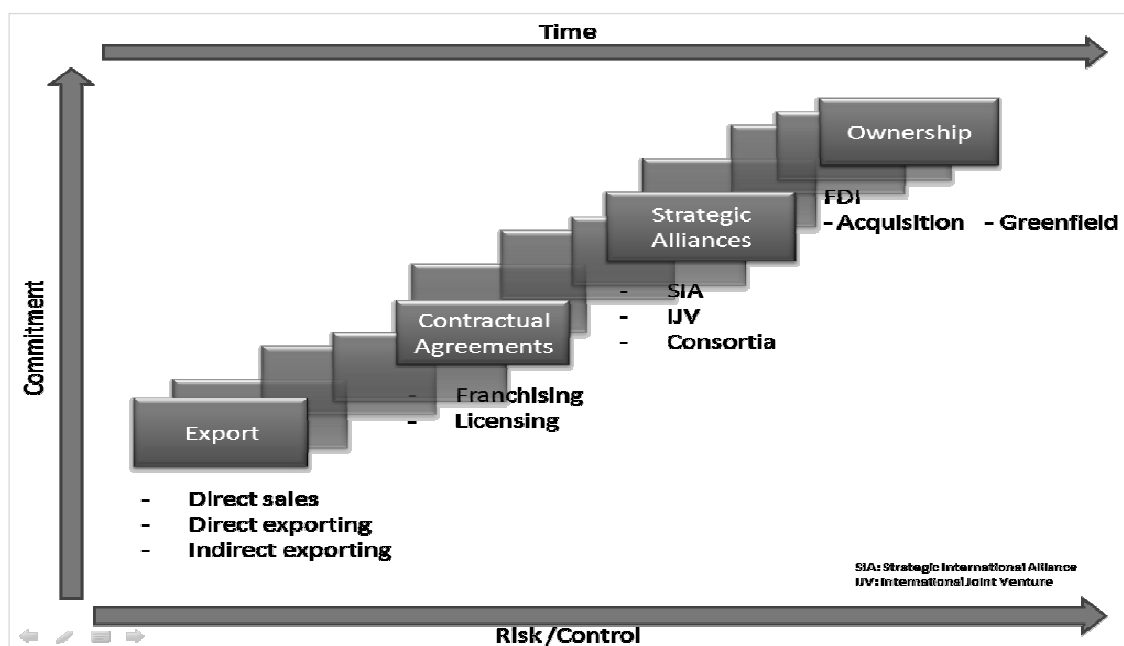
Indirect exporting: A company's products are offered in foreign markets, but the firm itself does not engage in international trade. Sale efforts are carried by distributors or importers located in the same country as the exporting enterprise.

Direct exporting: The firm itself undertakes the effort and invests resources for exporting. Products or services are sold: via agents or distributors located in foreign market, company export salesman or through a sales subsidiary. This strategy is most frequently used by companies taking their first international step. The aim is to minimise risks of financial losses (Cateora, *et al.*, 2009). However it should be kept in mind that exchange rates and implementation of tariffs are risks which come along with this strategy. The efforts are now borne to a much larger extent by the exporting company itself. The company has to construct contracts, undertake market research, handle export documentation and transportation set prices and provide a marketing and distribution structure.

The choice for direct exporting shows a stronger commitment to foreign markets than indirect exporting and facilitates greater control and information feedback (*ibid.*).

Direct sales is one form of direct exporting that takes the commitment to foreign markets even further, by establishing an own sale force with local and/or expatriate managers (Cateora, *et al.*, 2009). It is the logical, next step for a firm who had been able to increase market knowledge to cut out agents or distributors and increase its profit margin. Country-specific knowledge hold by agents or distributors is lost, but can be regained through employing local staff. Moreover direct export through a partly or wholly owned sales subsidiary increases the company's commitment and risk in the foreign market. On the other hand it overcomes problems arising from the cooperation with agents or distributors. E.g. the agent sells competing products or lacks financial strength which limits sales and could influence product/ service quality. Figure 3.6 summarises common entry modes frequently used by internationalising firms from different economies. As depicted in figure 3.6 SMEs in developing economies prefer exporting as the safest alternatives.

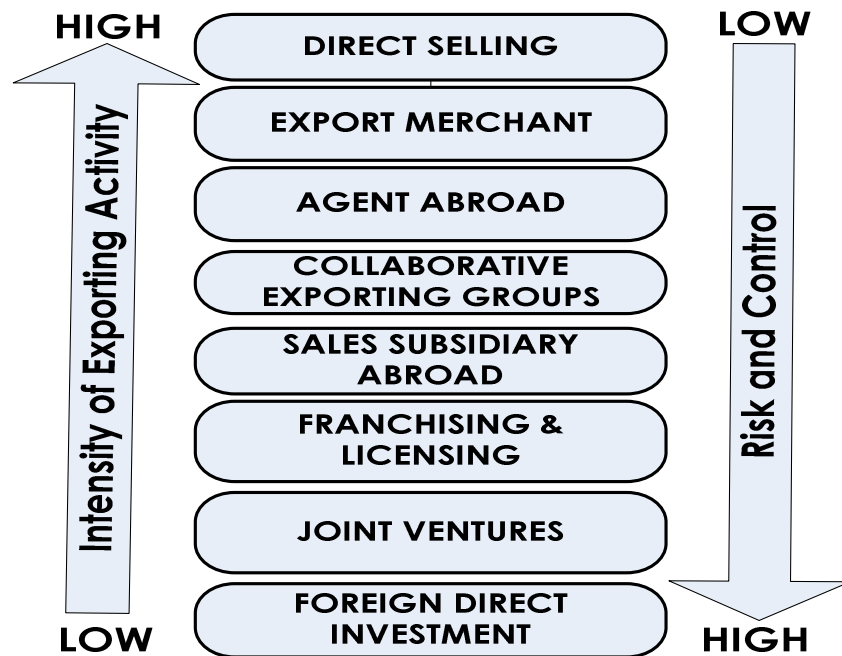
Figure 3.6: International Market Entry Modes



Source: Adopted from Alserud & Tykesson, 2011 based on Root, 1998)

However, entry mode choice and market selection is affected by different internal and external factors. Before committing resources, SMEs should consider all these factors. Table 3.8 summarises each factor to be considered while choosing international market entry modes and specific market selection. From a macro economic viewpoint exporting provides countries with foreign exchange, employment, opportunities for vertical integration of businesses and, with the resources obtained in international markets, a higher standard of living. At the level of the firm itself exporting may provide a competitive advantage, improve its financial position, increase the use of plant and equipment and improve the technology base in the firm (Bradley, 2005). Exporting may be considered as part of a continuum of increasing commitment to internationalisation. Being a very versatile mode of foreign market entry, firms frequently use it in conjunction with other entry modes (Figure 3.7).

Figure 3.7: A Continuum of Exporting as Internationalisation Mode



Source: Adopted from Bradley, 2005

Table 3.8: The Forces and Factors Influencing Market and Entry Mode Selection

Forces	Factors for Market Selection	Factors for Entry Mode Selection
Internal	Stage of internationalisation Company strategic orientation Company strategic objectives Overseas market selection experience Company international competitiveness Calculation methods applied	Company size / resources Market locus of control Experiencing in using MEMS Management risk attitudes Market share targets Calculation methods applied Profit targets
External	Country market potential Competitive significance of the market Anticipated overseas market risks	Characteristics of overseas country Business environment Industry feasibility/viability of MEMS Popularity of individual MEMS in the overseas market Market growth rate Image support requirements Global management efficiency requirements
Mixed	Own / Accessible resources Networking Similarity / Proximity of overseas market Market portfolio congruity Expansion sequence optimisation	Competitiveness, capabilities and skills required/available for each MEMS Sufficiency and reliability of information inputs

Source: Adopted from Senik (2010:77)

Exporting has been extensively employed by firms as an internationalisation strategy. Compared to direct foreign investment via equity modes, exporting is a non-equity mode of market entry and a relatively easy and fast way to enter foreign markets because it involves comparatively low levels of commitment and risk. In exporting, a firm does not have to make a substantial resource

commitment to a foreign market as it does when making a foreign investment. Exporting is also an easier strategy to implement because a firm does not have to deal with the complexities of establishing a foreign subsidiary. Further, exporting provides relatively faster access to a foreign market because a firm can use its existing production facilities to serve its foreign markets rather than building new production facilities in a foreign market. These unique advantages associated with exporting are especially important for SMEs that typically face resource constraints and would not like to make excessive resource commitments and be exposed to unreasonably high investment risks.

Exporting helps organisation to increase sales and profits by creating new contacts in the international market. Organisation gets chance to sell their products in the global market place when the home market is saturated and face economical problem. The small and medium enterprises become more effective through exporting and could perform better than bigger organisation in some context of international business. The success of an organisation depends on the selection of the right entry mode while entering in to a foreign market. There are six different options for organisation while trying to enter in to foreign markets: exporting, licensing, franchising, turnkey projects, joint ventures, and wholly owned subsidiary (Hill, 2009).

A large number of organisations choose exporting to start their international business. Exporting is useful to avoid unnecessary manufacturing operation in the foreign market (Ball, *et al.*, 2008). Moreover, exporting requires less foreign investment and the risk associated with exporting is less compare to other mode of internationalisation (Daniels, *et al.*, 2011).

The process of exporting can choose between direct exporting and indirect exporting. Direct exporting is handled by the organisation itself. The marketing and sales department is responsible for complete the task of export management in direct exporting. The domestic employees are responsible for the entire export process. However, a different export department may be created for extended sales and growth. Indirect exporting is done by an

exporter based on the home country and the process is easier than direct exporting (Ball, *et al.*, 2008).

An indirect export can be performed on by using a (a) Manufacturer export agents (b) Export commission agent (c) Export merchant and (d) International firms. (Ball, *et al.*, 2008) The marketing concepts, process and planning are similar in domestic market as well as in the international market. However, the environment in the international market is different than the domestic market. International marketing is more complicated and unique than doing marketing in the home environment. International marketing faces challenges of different uncertain problems and situations in the international markets (Cateora & Graham, 2006).

Exporting has become a significant internationalisation strategy for both companies and national economies in the world markets (Koksal, 2011). Growing liberalisation, integration and competition in the world economies have been responsible for the increasing engagement of firms in exporting activities (Ural, 2009). Also as the pursuant to the growing globalisation of the world's economies, exporting activities for SMEs have become more consequential for the survival, growth and long-term viability of business organisations since exporting is generally a less resource-laden approach as compared with alternative foreign market entry and expansion modes since it requires minimum business risk, needs low commitment of resources, and offers high flexibility of movements (Neupert, *et al.*, 2006; Korez, 2007).

Exporting has traditionally been an economic activity much required by corporate managers for a number of reasons: export development is perhaps the most widely studied and least understood aspect of international business (Kazem & Heijden, 2006; Grimes, *et al.*, 2007); it seems to better production productivity (Koksal, 2011); it grants a better profit base to reward shareholders and employees it generates more funds for reinvestment and growth (*ibid.*).

The major functions of domestic and international business are almost similar. The international business deals with different issues related with global business environment. There are a large number of irrepressible sources affect the process of international business. As a result, the managers of international business need skills and knowledge to manage the international marketing activities in the overseas markets (Ball, *et al.*, 2008).The success of organisations in the international market depends on the choosing a well planned marketing strategy. It is important for organisations to understand the need of the foreign market and prepare a strategy to fulfil the need of the market. Further, organisation concentrates to compelling the elements of marketing mix while operating in the international market. Product, price, promotion, brand, and distributions are the major components of international marketing mix (Daniels, *et al.*, 2010).

Product, price, promotion, brand, and distributions are the major components of international marketing mix. Organisation need to consider the legal, economical and cultural issues to adopt product strategies in the international market. Moreover, government rules, currency exchange rate, export pricing are some major elements for the pricing strategies in the international market (Daniels, *et al.*, 2010). Besides that, distribution systems, promotional cost, consumer buying behaviour are essential elements for the development of promotional strategies in the international market (*ibid.*). In addition to, language, country image, brand names are very important tools for the implementation of a successful branding strategy. The transportation, delivery system and availability of proper distribution channel play significant role for managing the distribution strategies in the international market.

3.7 THEORETICAL POSITIONING OF THE CURRENT STUDY

Despite the numerous internationalisation theories and models, it is interesting to note that the review of empirical SME internationalisation studies indicates that none of these theories and models completely captures the real internationalisation of SMEs. Thus, integration of these theories and models is

recommended for understanding the process (Ghanatabadi, 2005; Jones and Coviello, 2005). A certain amount of integration in SMEs' literature has been attained. However, the majority of integration perspectives include the Network Theory, as business and social relationships constitute the core of the internationalisation process. Network Theories seemed capable to comprehend the behaviour of internationalising firms (Hilmersson, 2011).

Other authors (Ruzzier, *et al.*, 2006) proposed the integration of the Resource Based View and the Network Theory, because, on one hand, the Resource Based View seems to fit the needs of owners and executives of SMEs and it could be a useful theoretical framework for expansion to encompass the internationalisation of SMEs and their specific resources, representing competitive advantages allowing SMEs to develop so as to successfully enter and operate in international markets (*ibid.*). Moreover, the Resource-Based Theory and the Network Perspective developments seem to have gone hand in hand, since, in both theories, internal and external resources available to the firm are seen as composing the total set of resources available. In order to have access to strategic resources, firms may co-operate vertically, with respect to the product flow, or horizontally with competitors, in other words, by entering into network relations (Ruzzier, *et al.*, 2006).

Despite the various approaches to the definition of internationalisation, the researcher in the current study adopts the view that internationalisation is the expansion of firm's operations to foreign markets and agrees with the notion that internationalisation could result from punctual and independent actions. On the other hand, in order to show the complexity of phenomenon, it is important to discuss the main internationalisation theories and models in an integrated ways. A review of integrated models and theories on SME internationalisation was undertaken, and included seven conceptual articles from between 2005 and 2011. Table 3.9 presents a brief summary of the integrated frameworks reviewed and summarises the implications for research.

Table 3.9: Summary of Past Studies that Proposed Integration of SME Internationalisation Theories

Authors	Previous Models	Integrated	Rationale and Implications
Jones & Coviello (2005)	Integrates Rapid, Entrepreneurship, Resource-based & Networking)	Incremental, International	Proposes a three-stage process model for a unifying direction in internationalisation process research. Indicates that integration of theories & models characterise the process.
Ruzzier, Hisrich, & Antoncic (2006)	Integrates theories & utilises definitions on SMEs / MNEs internationalisation.	thorough	Proposes an integrative theoretical model based on mode, market, product & time linked to internationalisation performance, key antecedents & consequences of firm internationalisation process.
Mtigwe (2006)	Integrates Rapid, International Entrepreneurship, Resource-based & Networking & others.	Incremental, &	Relates firm internationalisation process with International Business school of thought. Illustrates various scholarly works & theoretical approaches. Demonstrates that theories appear to parallel each other.
Senik (2010)	Integrate Stages, rapid, & Network & born global models.		Justifies the need for more up-to-date integrated model. Existing theories are not yet enough to explain SMEs internationalisation in developing countries. Develop an integrated model of SMEs internationalisation
Korsakiene & Tvaronaviciene (2012)	Integrate stage, network & international entrepreneur ship approaches		Relates different theoretical implications. Demonstrate the complexity of internationalisation & importance of integrating models to explain the same

Source: Author's own compilation from literature (2015)

Jones and Coviello (2005) bring together concepts common to internationalisation and entrepreneurship research. The integration of incremental internationalisation, international entrepreneurship, the resource based, network and rapid theories, enabled them to propose a unifying direction via the three-stage process models. Their findings suggest SME internationalisation can be viewed from a behavioural and chronological perspective. Yet, they claim the integration of theories and models does not predict, but could only characterize SME internationalisation.

Ruzzier, *et al.* (2006) attempted to comprehend the similarities, differences and specific factors affecting SME and MNE internationalisation and analysed the past and current studies. They contributed an integrative conceptual model based on four internationalisation properties: mode, market, product and time, which are linked to performance, key antecedents and consequences of internationalising the firm.

Mtigwe (2006) sought convergence of International Entrepreneurship and International Business theories, and classified the theories into four phases: Classical Theories (Absolute Advantage, Comparative Advantage and the Hecksher – Ohlin Factor Proportion Theory); Early Market Imperfections Theories (FDI Theory and IPLC); Latter Day Market Imperfections Theories (Portfolio, Internalisation, Eclectic and Resource Advantage Theories); and "Internationalisation Theories (Incremental, Network and International Entrepreneurship Theories). Mtigwe posits that the integration of various scholarly works and theoretical approaches demonstrates comparability with each other. Senik (2010) attempted integration of traditional and rapid internationalisation models and developed an integrated model for SMEs internationalisation in the context of developing countries.

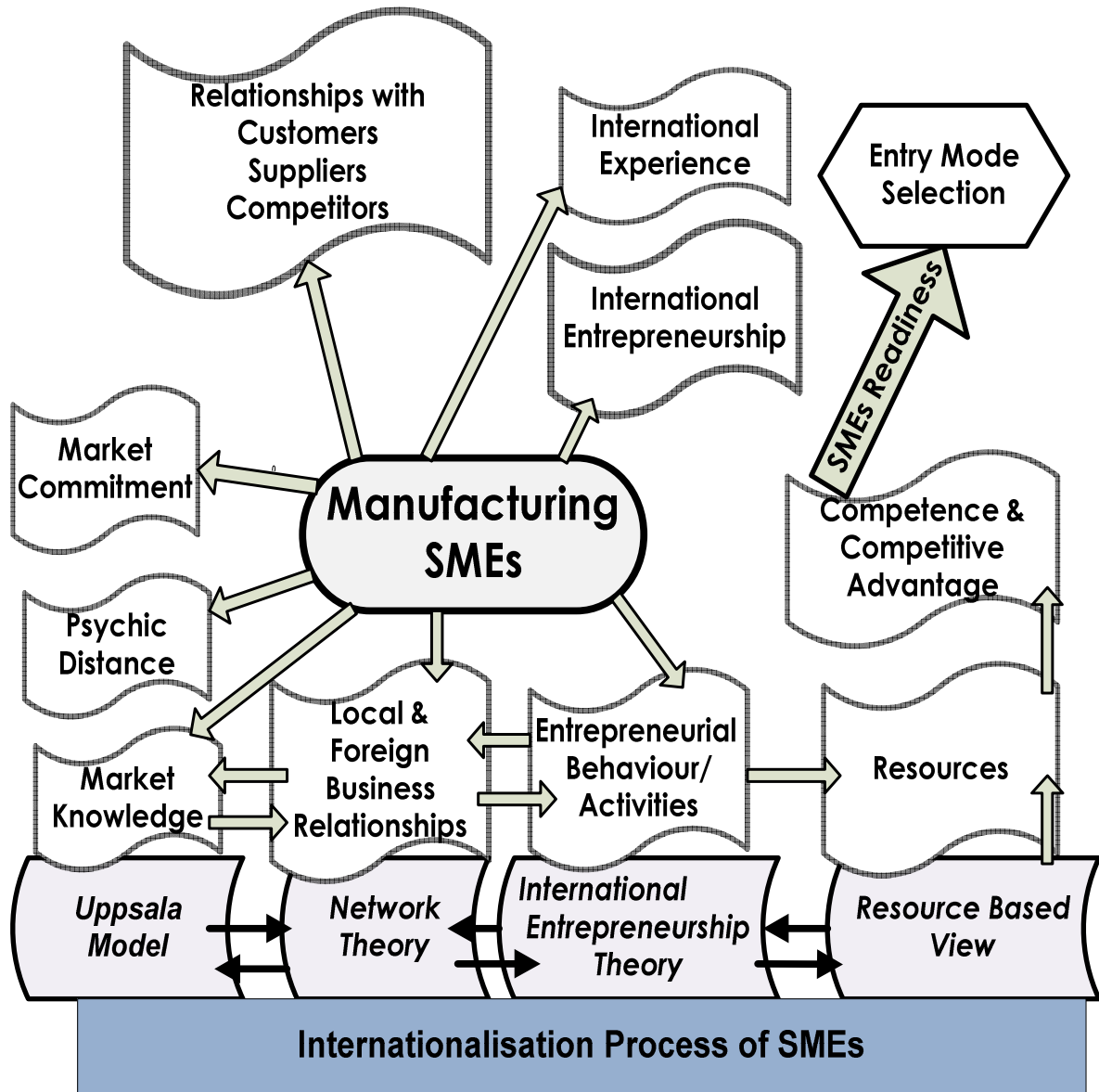
Based on the foregoing discussion of reviewed literatures in the current study the author argued that the construct of SMEs internationalisation is a complex issue which cannot be explained using one theoretical perspective. Accordingly the following issues have been raised:

1. In today's era of globalization international trade and business operations cannot be explained by as single theoretical frame of reference.
2. Industrial characteristics may necessitate use of specific theories.
3. SMEs internationalisation especially in developing countries must be viewed from different angles.
4. Fast changes in global, regional and local developments must be supported by updating of existing theoretical perspectives.
5. The aim of integration is to clearly show SMEs internationalisation from different angles
6. Applicability and sustainability of traditional models and theories must be checked through empirical research and
7. Weaknesses of one model can be counterbalanced by the strengths of other model thus; this justifies integration of the theoretical models.

Based on the above discussions an integrated theoretical framework for the current study is shown in Figure 3.8 in the following page.

The previous sections presented the theories of firm internationalisation that are common in influencing the behaviours of SMEs in internationalisation process. The researcher based his first theoretical framework on the foregoing theoretical discussions. Thus, based up on the above literature review, knowledge about foreign markets, business networks and entrepreneurial abilities and activities of individuals and firms, firm resources appear to be significant variables that explain the internationalisation process of SMEs. The theories presented above are interrelated with each other. Figure 3.8, study's theoretical framework shows how the four theoretical models of SMEs internationalisation are related to each other. Market knowledge is a key factor for internationalisation. Without proper knowledge about the target market firms cannot plan their internationalisation process.

Figure 3.8: Theoretical Framework Informing This Current Study



Source: Author's Own construction based on literature review (2015)

According to Uppsala model of SMEs internationalisation, market knowledge increases through current activities and then firms commit more resources into that particular market. As stated in network theory, often the source of market knowledge is local and foreign business relationships or in other words, the networks. As for international entrepreneurship theory, market knowledge comes from the entrepreneurial behaviour or activities of individuals and firms; often through the opportunity seeking behaviour of the entrepreneurs.

Obviously, a substantial degree of market knowledge can also come from the previous international business experience of the entrepreneurs. In today's business world, all three sources of market knowledge can be available for the SMEs. They can gain more knowledge about different markets through their current activities; they can have access to many different types of information through their networks and they can also be entrepreneurial firms with motivated, opportunity seeking individuals who has international business experience at the same time.

Therefore, it can be said that the SMEs may use different tools from all the four theories and combine them together to get the best results for their internationalisation process. However, theories of internationalisation are just tools that help SMEs to formulate strategies to internationalise. The SMEs also need to consider issues such as entry modes, barriers and driving forces, competitive advantage and so on in order to internationalise successfully. Market entry mode presented in section 3.5, whereas the barriers and SMEs internationalisation driving forces will be discussed in the following chapter in detail.

3.8 CHAPTER SUMMARY

This chapter has reviewed literature pertaining to the internationalisation of SMEs and identified that many factors influence firm internationalisation. First, the chapter examined the application of internationalisation theories and models that cover the incremental and rapid internationalisation models, the network, resource-based and entrepreneurial approaches to internationalisation. The discussion outlined each perspective and provided evidence of their role in the internationalisation process. The objectives of the literature study were to provide an overview of the theory on internationalisation, to discuss the models of SMEs internationalisation and to develop an integrated model that shows internationalisation from holistic perspective and position this study in view of existing scholarship in the field of international business.

Among earliest models discussed was Dunning's eclectic approach which is built on entry mode strategies and international production. In essence, the firm has foreign direct investment, licensing and exporting as internationalisation strategies to choose from. These three strategies are subject to the OLI advantages and will consequently influence the firm's ultimate decision. If a firm has ownership advantages, but lack location or internalisation advantages, the theory indicates that licensing will be the best way to handle international production. If in turn the firm possesses both ownership advantages and internalisation advantages, it would not be worthwhile to set up a new affiliate in a foreign market if no advantages are realised from being located in that specific country. The solution would be to export to the specific country. A firm can only implement foreign direct investment as strategy if the firm possesses all three OLI advantages simultaneously.

The common behavioural models presented belong to the traditional or incremental internationalisation models and are known as the Uppsala model and Innovation-related model. Firms in the above-mentioned models follow a certain number of stages in order to achieve internationalisation. In the Uppsala model, knowledge and psychological distance plays a significant role. As the firm goes through the stages, it gathers more knowledge that reduces the risk associated with the foreign market. The firm consequently commits more resources to the foreign market. Psychological distance implies that the firms first enter markets that they are more familiar with.

In the innovation-related model, the focus is on the adoption of innovation between the stages. Firms that possess a higher level of innovation will be better positioned to fully exploit the benefits of internationalisation. Larger firms are designated to reap the benefits from innovation as a result of aspects such as technical proficiency, economies of scale and the characteristics of the managers. Innovation is regarded as a characteristic of entrepreneurs and therefore entrepreneurs must think and act innovatively. Not all firms follow the traditional route to internationalisation and have found a useful alternative in

rapid internationalisation. The rapid internationalisation model was discussed through the theories on born global firms and international new ventures. In the traditional internationalisation theories of Uppsala and the innovation-associated model, firms steadily construct a stable position in their domestic market before going international. In contrast to the traditional theories, rapid internationalising firms ignore an established domestic market and instead aspire to access new markets abroad from its inception.

Another important theory, namely international entrepreneurship, started with interest in international new ventures. International entrepreneurship is defined as the process of discovering, enacting, evaluating, and exploiting of opportunities across national borders in pursuit of a competitive advantage. The entrepreneur is the actor and searches for a competitive advantage across national borders, which in turn generate wealth for the firm owners. The entrepreneur is also a vital actor in another theory called the transaction cost theory. The theory is built around economic tasks such as production. The firm has to choose where it will be more cost-effective to perform production outside of the firm or inside the firm. If cost can be saved by internalising, the entrepreneur manages production inside the firm. The basic principle of the transaction cost theory is that the firm will shift low cost activities to the firm itself and rely up on the market to provide the other external activities where other firms carry an advantage in.

The resource-based theory concentrates on the firm's unique bundle of resources and on how advantages can be generated from these resources. A firm that has valuable and rare resources will potentially gain a competitive advantage and if the resource is imperfectly imitable and non-substitutable in addition, the firm will potentially gain a sustained competitive advantage. Firms introduce strategies based on the resources that they control with the aim to enhance efficiency. The criteria applicable to describe a resource as strategic are that the resource must be valuable, rare, imperfectly imitable and non-substitutable. The resource-based theory can to a degree explain

internationalisation since entrepreneurs improve their intellectual capital as they progressively learn which strategies to implement and resources to allocate the best for a foreign market.

Based on this concise review, the researcher may conclude that SMES internationalisation has been viewed from the perspectives of stages, network, and resource based view and international entrepreneurship theories are frequently used to describe the pattern and behavior of SMEs in the process of international business involvement. It may be, however, that SMES internationalisation models must be viewed in an integrative fashion because SMEs may not wait for the cyclical process of international market involvement. To this end the present study is justified from the perspective of filling gaps in using an integrative conceptualisation while studying SMEs internationalisation in developing economies.

Reviews of recent articles from 2005 to 2011 helped investigate the integrated theories and rationalise the argument that SMEs internationalisation is a complex construct which cannot be informed using single theoretical viewpoint. The research gaps in the literature were identified and these helped clarify the research questions and hypotheses formulation in the fifth chapter. The last section provided an integrated theoretical framework (Figure 3.8). This analysis informs the discussion of research problem and relevance of the problem under investigation. The next chapter presents the problem discussion and paves the way towards the conceptualisation of the construct in subsequent chapters.

CHAPTER 4

PROBLEM DISCUSSION AND RELEVANCE OF THE STUDY

4.1 INTRODUCTION

After having looked at the various internationalisation theories and their applicability for SMEs in the previous chapter, the complexity of the internationalisation process was laid out and the value of layering the various theories shown. This chapter builds on those theoretical underpinnings as it draws on SME internationalisation and international business literatures. The chapter begins with discussing the problems faced by SMEs in light of the driving forces that stimulate firms to start internationalisation and those barriers affect firms' operation in global arena. The second part deals with major export barriers that hinder firm's international involvement with special focus on Ethiopian situation. Moreover, different classification of export barriers from existing literatures and past empirical works are discussed. The other issue to be discussed is the impact different export barriers may pose on export performance of exporting SMEs.

The chapter continues with the discussion of the role of government in facilitating internationalisation of firms by considering export promotion efforts in Ethiopia. In order to position the current study in view of past empirical works on SMEs internationalisation barriers and drivers recent past studies will be discussed. The chapter ends with summarisation of key points discussed throughout the chapter.

4.2 PROBLEM DISCUSSION AND THEORETICAL FOUNDATION

There are several reasons that make SME's internationalisation worth to be analysed. First, the number of small firms operating in international markets has been growing. During the last decade, Small and Medium-Sized Enterprises (SMEs) has been the object of increasing interest: politicians, governmental

bodies and academics have re-evaluated the importance of these firms. Second, with improved communication systems and as a consequence of transportation cost reduction and the lowering of barriers to international trade, SMEs have been pushed towards international markets (Nummela, *et al.*, 2006). Third, in most countries, SMEs represent the majority of firms and play an important role in the economic growth of their representative countries.

Genuine Entrepreneurs are the engine of sustainable economic growth and innovation in African nations. Under proper governance and encouraging environment, they can make a pivotal contribution to the socio-economic development of the continent. However, entrepreneurs, particularly owning Small and Medium Enterprises (SMEs), have continued confronting formidable challenges. This is due to the new reality marked by increasing international business interactions and socio-economic and technological interdependency affecting all developed and developing economies around the globe. This in turn has brought enormous intricacies and complexities in conducting business both domestically and internationally. Thus, in Ethiopia internationalisation by SMEs has been affected by high costs of trade especially trade logistics, conventional trade barriers maintained against Ethiopia's exports by its regional trading partners, volatility of real exchange rate were identified as the major challenges faced by Ethiopian exporters (Ciuriak,2010).

Given the present widespread interest in emerging global markets and rapid technological development, it is reasonable to expect internationalisation will proceed in the future (OECD Report, 2008; Departement of Community and Economic Development, 2007). The new global reality is marked by sectoral shifts, policy reforms, greater global interactions and heightened influence of both economic and non economic factors (IFC, 2011). This has enhanced the multidimensional role of enterprises in the international business environment.

The modern and productive economic sectors in Africa are dominated by small businesses. Most African entrepreneurs are owners of SMEs, and they have ultimate responsibility to nurture their firms in order to continue to play a

principal role in promoting and nurturing a widespread tradition of innovation and entrepreneurship across the continent. Other stakeholders including governments should also contribute their part as SMEs are potentially responsible for economic prosperity and innovative competitiveness of both developed and developing countries (OECD, 2009).

However, African SMEs are now vividly affected by the growing global competition challenges in virtually all business areas including manufacturing, trade, finance, technology, transport and communication, information management, entrepreneurship, etc. This is largely due to the attitude and inactiveness of African entrepreneurs (Ekeledo and Bewayo, 2009). Anecdotal observations indicated that African entrepreneurs are more focused on local market domains which might not guarantee them long-term sustainability and growth given the current global business turbulence (Beyene, 2002). On top of that they are not kin as desired about the important impact of technology on business sustainability. Ethiopia has not been out of the exception in this regard. Small business sectors have not been keen to export because they prefer to stay home and keep on serving domestic market.

As previous studies revealed that, there are numerous generally expressed positive and negative factors influencing entrepreneurs' internationalisation endeavors in developing nations including those in Africa (OECD, 2009). They are summarised more or less as follows: Import tariffs; cumbersome procedures and regulatory problems; scarcity of firms resources including required entrepreneurial and managerial acumen and limited international contacts; lack of the desired motives for growth and knowledge related motives for internationalisation; policy implementation problems; the attitude of regulatory governmental and public institutions; poor administrative practices; corruption and discrimination; weak domestic institutional capacities; the legal and judicial system governing international business activities.

Added to these problems is that, African entrepreneurs' scant orientation on the mechanisms of borderless mobilisation of business is also another important

factor. To marginalise the negative factors, entrepreneurs' and other stakeholders should make helpful efforts to enhancing the ability to benefit from external environment such as external links, social ties, foreign investors and entrepreneurs links and other infrastructures facilitating internationalisation is also fundamental (OECD, 2009).

The growing participation of SMEs and their key role in economic development, and the limited number of SME internationalisation studies in developing countries especially in Ethiopia have motivated the researcher to select firm internationalisation area for further investigation in the current study. Preliminary literature review and pilot study enabled the researcher to define the purpose of the current study as "to gain a better understanding of the drivers and barriers of SMEs internationalisation process in Ethiopia". The study will further attempt to clarify this problem through conceptualisation of five investigative questions as stated in the first chapter:

- *What driving forces motivate the internationalisation process of SMEs in manufacturing industries in Ethiopia?*
- *What patterns and internationalisation strategy do Ethiopian manufacturing SMEs follow?*
- *What are the factors that hinder internationalisation process of SMEs in manufacturing industries in Ethiopia?*
- *What is the impact of internal and external internationalisation barriers on export performance of manufacturing SMEs in Ethiopia?*
- *What government support programs are there to promote internationalisation of manufacturing SMEs in Ethiopia?*

Accordingly, the research problem for the current study was formulated as follows:

The research problem:

What is the pattern of Small and Medium-sized manufacturing business internationalisation process and how SMEs internationalisation is hindered by export barriers within manufacturing industries in Ethiopia?

Conceptualisation of the internationalisation process as patterns of stages which is driven by different factors and scope which is hindered by different impediments leads the investigation of this study to the critical issue in SMEs internationalisation that is, why and what triggers firms to involve in internationalisation? How internationalisation initiation and expansion is influenced by internal and external factors? And how export promotion efforts help in reducing those barriers that affect internationalisation of firms. This general statement guides further discussion of the problem area in the following sections.

4.3 DRIVERS OF SMES INTERNATIONALISATION

Factors that cause a firm to internationalise are known as motivational factors (Senik, 2010). According to Leonidou, *et al.* (2007), "export stimuli" also called motives, incentives, or attention evokers, refer to all those factors triggering the decision of the firm to initiate and develop export activities. Understanding firms' motivators who go overseas is necessary for public policy makers to design effective promotional programs for these firms (Crick, *et al.*, 2009; Leonidou, *et al.*, 2007). Since the early 1970s, export motivations are received a lot of attention from the research community (*ibid.*). In the literature, there are a variety of motivators or reasons why SMEs decide to export their products (Leonidou, *et al.*, 2007). Some export motivators are growing foreign market dependence, declining domestic market shares or saturated home markets, receipt of unsolicited foreign orders, etc. In many studies, motivational factors can be listed up to 40 items (Leonidou, *et al.*, 2007).

Leonidou, *et al.* (2007) argued that the impact of each motivating factors on a firm's export decision is quite different because of their different frequency, intensity and importance perceived by managers. Moreover, the export development process can be divided into three main phases depending on different levels of firms' interest in exporting activities including pre-engagement phase, the initial phase and the advanced phase. Therefore, the nature of export motivations is dynamic, complex and situation-specific (Leonidou, *et al.*,

2007). This fact also becomes the main reason to explain why researchers can not underestimate low impact stimuli. In fact, these stimuli can have a considerable impact on a firm's export decision in a certain situation and dramatic impact stimuli may be complemented by their role (*ibid*).

Wilson (2007) states that generally growth is the most important goal for firms that aims to expand abroad. Restricted growth prospects in domestic markets and the globalisation of markets have motivated firms to increasingly engage in activities internationally (OECD, 2009). Improvements in sectors such as technology and communication have facilitated business from anywhere in the world (Wilson, 2007). The globalized world economy has provided a lot of exporting opportunities for both multinational firms and for smaller firms that tend to have concentrated only on their domestic market.

Smaller domestic markets will also force SMEs with specialised or large production to enter foreign markets (Wilson, 2007). Firms do not want to be dependent on the domestic market for opportunities, so they venture abroad because they associate the global market with growth opportunities (OECD, 2009). Firms want higher profits, but they also "seek" a better competitive position through the improvement of "their organisation capability, knowledge, and skills." In order to understand the existing drives in view of SMEs it worth discussing how existing works classified export driver factors in to different categories.

4.3.1 EXPORT DRIVERS CLASSIFICATIONS

Motivational factors are classified as proactive and reactive reasons (Senik, 2010). A further discussion of proactive and reactive drivers is that, proactive reasons refer to firms that are following an aggressive behaviour when they enter new markets. Reactive reasons refer to firms that are following a passive approach when they are in search of new markets to penetrate (Senik, 2010). Table 4.1 lists several reactive and proactive motivational reasons for firms to internationalise. The reactive and proactive reasons are discussed below.

Table 4.1: Proactive and reactive reasons for internationalisation

Proactive Reasons	Reactive Reasons
Managerial urge	Saturated and small domestic market
Foreign market opportunities	Competitive pressures
Profit and growth goals	Unsolited foreign orders
Advanced technology	Declining domestic sales
Economies of Scale	Risk diversification
Unique product	Psychological distance
Exclusive market Information	Proximity to international customers

Source: Senik (2010)

Another classification accepted broadly is that motivation includes internal and external factors (Leonidou, *et al.*, 2007). Internal factors are intrinsic to the firm whereas external factors are exogenous. After reviewing 32 empirical studies from 1974-2005, Leonidou, *et al.* (2007) offered a clearer and more detailed classification for both internal and external export. According to their view, internal motivators include motivators in five main functional areas including human resources, financial, research and development, production and marketing. External motivators include factors associated with domestic market, foreign market, home government, foreign government, intermediaries, competition, and customers. Detailed summary of the classification provided by Leonidou, *et al.* (2007) as shown in Table 4.2.

In their views, motivational factors can be grouped into four main categories including internal-proactive, internal-reactive, external-proactive and external-reactive. Internal-proactive factors are defined as factors related to firms' unique internal competences such as special managerial interest/urge, utilisation of special managerial talent/skills/time, management trips overseas, potential for extra sales/profit/growth from exporting, etc. (Leonidou, *et al.*, 2007). Internal-reactive factors result from firms' response to pressures imposed by factors in their internal environment such as stagnation/decline in domestic

sales/profits, accumulation of unsold inventory/overproduction, availability of unutilised production capacity, and smoothing production of a seasonal product (*ibid.*).

External-proactive factors mention factors associated with firms' ability to exploit market opportunities such as the possibility of reducing the power of domestic customers, exclusive information on foreign markets, identification of better opportunities abroad, government export assistance/incentives, gaining foreign expertise to improve domestic competitiveness and patriotic duty of local firms (Leonidou, *et al.*, 2007). External-reactive factors include firms' respondents to pressure from their external environment such as saturation/shrinkage of the domestic market, need to reduce dependence on and risk of the domestic market, unfavourable state of the domestic economy, etc. (*ibid.*). Leonidou summarised that exporters' main reasons for involving in exporting activities mostly are external-reactive factors whereas internal-proactive factors demonstrate non-exporters' perspective on export stimulation.

As mentioned in the foregoing discussions there are many factors and classifications of each that provide us with an insight into the drivers of SMEs internationalisation. The taxonomy of drivers of internationalisation has a diverse list but the current study adopted the classifications offered by Leonidou, *et al.* (2007) to analyse data and further recommend whether this classification is applicable for Ethiopian SMEs. There are three reasons explaining for this choice. Firstly, their classification is summarised after reviewing 32 empirical studies. Therefore, it is able to provide the more comprehensive classification. Secondly, this classification is offered in 2007 and it is relatively new compared to other previous classifications. Finally, the authors refer to use this classification when examining SMEs. This purpose is compatible with the aim of the current study.

Table 4.2: Classifications of Export Stimuli (Leonidou et al. 2007)

Export Stimuli	Internal Stimuli	Human resource	Special Managerial interest/urge (P)
			Utilization of special managerial talent/skills/time (P)
			Management trips overseas (P)
		Financial	Stagnation/decline in domestic sales/profits(R)
			Possession of financial competitive advantage (P)
			Potential for extra growth from exporting (P)
			Potential for extra sales/profits from exporting (P)
		Production	Accumulation of unsold inventory/overproduction(R)
			Smoothing production of a seasonal product(R)
			Achievement of economies of scale (P)
			Availability of unutilised production capacity(R)
		Research & Development	Possession of proprietary technical knowledge (P)
			Possession of a unique/patented product (P)
	Extending lifecycle of domestic products (P)		
	Marketing	Ability to easily adapt marketing for foreign markets (P)	
		Possession of a marketing competitive advantage (P)	
	External Stimuli	Domestic Market	Saturation/shrinkage of domestic market(R)
			Need to reduce dependence on/risk of domestic market(R)
			Possibility of reducing the power of domestic customers (P)
			unfavorable state of domestic economy(R)
			Favorable foreign exchange rates(R)
		Foreign Market	Possession of exclusive information on foreign markets (P)
			Identification of better opportunities abroad (P)
			Close physical proximity to foreign markets(R)
		Home Government	Government export assistance/incentives (P)
			Ministry of commerce/trade mission activity(R)
Encouragement by government agencies(R)			
Foreign Government		Relaxation of foreign rules and regulations in certain foreign markets(R)	
		Reduction of tariffs/non-tariffs in certain overseas countries(R)	
Intermediaries		Encouragement by industry, trade and other associations(R)	
		Encouragement by banks /financial institutions(R)	
		Encouragement by brokers/agents/distributors(R)	
Competition		Intense domestic competition(R)	
		Initiation of exports by domestic competitors(R)	
		Entry of a foreign competitor in the home market(R)	
	Gaining foreign expertise to improve competitiveness (P)		
Customers	Receipt of unsolicited orders from foreign customers(R)		
	Receipt of orders after participation in trade fairs(R)		
Miscellaneous	Patriotic duty of local firms(R)		
	Proximity to international ports/air ports (P)		

Note: (P)= proactive and (R)= reactive

4.3.2 FACTORS MOTIVATING EXPORT TRADE IN ETHIOPIA

Export driving factors in Ethiopia are attributed to external factors besides firms' competitive position. Most of the factors are associated with Government programs that support internationalisation firms. One such program is the one run by Ethiopian Export Promotion Agency, a Government institution that was established with the objective of promoting the country's exports. In order to motivate exporters involvements in international trade the Agency:

- Professional support (hands-on technical assistance) and training to exporters, in line with the newly adopted export development strategy;
- Alleviation of problems faced by exporters by ensuring that export-related procedures of institutions relevant to export trade are conducive to the country's export development;
- Undertaking and dissemination of studies with regard to market on exportable products that will enhance the country's competitiveness in overseas markets;
- Linkage of Ethiopian exporters with foreign importers;
- Provision of support to exporters allowing them to participate in regional and international trade fairs as well as other trade promotion events;
- Collect, analyse and disseminate trade-related information to the business community and provide inquiry reply services;
- Encourage the existence of coordinated and efficient working arrangements among producers, exporters and service providers (MoTI, 2011)

As shown in chapter 2 of this current study, different factors can be considered as driving factors that motivate Ethiopian firms to involve in internationalisation become more competitive domestically. The first factor can be emanated from the fact that commitment of the government for the leather sector through the following operational strategies:

- Legislative and procedural reforms

- Establishment of one-stop shop service
- Revision of the investment law to suit dynamic change
- Improvement of investment climate
- Market oriented economic policy
- Direction towards export of finished leather
- Capacity building of the sector through twinning programs

Moreover, Ethiopia's integration to regional and international arena which is justified by it's currently being:

- Member of COMESA (common market for Easter and Southern Africa) with 19 member countries
- Access to AGOA (African growth and opportunity acts) market
- Access to EBA (everything but arms) of European Union
- General special preferences (GSP) privileges with different countries
- Bilateral investment treaties with more than 24 countries
- In process of joining world trade organization (WTO)
- Double taxation avoidance agreement with more than 14 countries

And in terms of key comparative costs advantages the following worth mentioning:

- Geographical location of the country (at a cross-road of Africa, Aiddle Aast and Asia)
- Large resource base in hides and skins,
- An internationally recognized high quality hides and skins,
- Strong government incentives,
- Political, social and macro-economic stability,
- Ever growing economy,
- Wide domestic, regional and international market opportunities,
- Competitive investment incentive packages (ELIA, 2013; NBE, 2009).

Although there are a lot of trends that are motivating firms to internationalise, there are still barriers that can impede with a firm's internationalisation efforts (Wilson, 2007). In the next section, the barriers to internationalisation are discussed.

Finally, with respect to the use of knowing all internal and external export drivers in guiding policy makers Leonidou, *et al.* (2007) made four suggestions that the government can trigger export behaviour by:

- Improving existing export promotion programmes by designing them according to the specific needs of small manufacturers and making them more attractive;
- Increasing coordination among the various government departments and agencies in order to enhance hands-on assistance provided to would-be exporters on export procedures, export market research, and strategic marketing matters;
- Making various other government institutions more aggressive in turning small manufacturers into regular exporters, by providing financial, technical, or other assistance; and,
- Facilitating firms to gradually move from exporting to other more advanced forms of internationalisation, such as forming joint ventures with foreign partners.

4.4 BARRIERS OF SMES INTERNATIONALISATION

Export barriers can be defined as the attitudinal, structural, operational and other constraints that hinder a firm's ability to initiate, develop or sustain international operations (Koksal and Kettaneh, 2011). It is important to achieve a better understanding of export barriers, since these barriers waste the resource of firms and threaten the efficiency and effectiveness of a firm's operations. The negative impact that export barriers can have on medium and small enterprises' internationalisation behaviors and activities has attracted the attention of many researchers in international business (*ibid.*). Studies have

employed different perspectives to establish a set of notable barriers, especially with regard to the specific industry or geographical area. Accordingly, this study aims at understanding different internal and external export barriers faced by Ethiopian SMEs due to the scarcity of past studies in the country in the area of SMEs internationalisation.

While scholars have carried out numerous studies on the perception of barriers to exporting, little consensus exists on the topic, primarily due to differences in method and content (Da Rocha, *et al.*, 2008). Barriers are constraints that hinder or prohibit the firm to start, expand or continue exports. In other words, barriers can prohibit firms to start internationalisation activities and they can hinder firms that are already exporting.

In many ways, though, the impediments to international growth discussed in the previous literatures often pose more of a problem for SMEs than for larger firms due to SME's relative lack of alternative resources (Jantunen, *et al.*, 2008; Koack, *et al.*, 2009; Javalgi, *et al.*, 2011). It has been noted, for instance, that a lack of appropriate knowledge is a challenge common to both small and large firms (Nummela, *et al.*, 2006; Sainio, *et al.*, 2011; Sandberg and Susanne, 2012), but, given their lack of alternative resources (compared to larger firms), the acquisition of knowledge is arguably more important for SMEs than for their larger counterparts. A review of the evidence from different past studies (Nummela, *et al.*, 2006; Sainio, *et al.*, 2011; Sandberg and Susanne, 2012) suggests the following findings regarding the top ranked barriers to the internationalisation of SMEs as follows:

1. Shortage of working capital to finance exports:- Limitations in finance and related physical resources have continued to be highlighted as a leading barrier to the internationalisation of SMEs (Finchelstein, 2010)

2. Limited information to locate/analyse markets:-Inadequate knowledge of overseas market also emerged as a top barrier in a recent study of Australian firms (EFIC, 2008). This factor was highlighted as the most cited internationalisation barrier among the responding firms, suggesting that

information gaps remain a critical challenge to SMEs even in the current era of extensive information availability.

3. Inability to contact potential overseas customers:-Recent surveys also reinforce the importance of this barrier. Among the studies reporting relevant evidence are separate UK research by Crick (2007) and Kneller and Pisu (2007). Crick (2007) highlighted the difficulty of locating/obtaining adequate representation in target export markets while the other two studies identified finding an appropriate foreign market partner as a key impediment to the internationalisation of the SMEs studied. A survey of Swedish exporters by Rundh (2007) also reported the difficulty of gaining access to a suitable distribution channel in international markets.

4. Lack of managerial time, skills and knowledge:-Difficulties arising from limited managerial knowledge base emerged as a top barrier to SME internationalisation in several recent surveys. Differences in managerial perceptions among American and Indian engineering firms were also found by Smith et al. (2006) to account for the observed variations in exporting activity.

Further research among Korean and Spanish SMEs similarly highlighted the salience of experiential/international market knowledge in explaining the internationalisation process of SMEs. Other studies that alluded to the intensity of managers' perceptual/psychological barriers to internationalisation include Crick (2007) and Vivekanandan and Rajendran (2006). A few additional barriers to SME internationalisation are highlighted in a number of recent surveys, notably administrative and technical difficulties, exchange rate, documentation and payment problems and foreign market competition. However, it is suggested here that these barriers are essentially perceptual/psychological as their overall incidence tends to decrease as firms develop further experiential knowledge in international markets (OECD, 2009).

4.4.1 EXPORT BARRIERS CLASSIFICATION

Several scholars have offered classification schemes for export barriers. For example, Tesfom and Lutz (2006) discussed barriers derived from both the internal and external environment of firms. Leonidou (2004; 2007) classified export barriers based on those originating from the internal or external environment, and those in the home or foreign markets, resulting in four groups of barriers: internal/domestic, internal/ foreign, external/domestic and external/foreign. Leonidou (2004) classified internal barriers into functional, informational, and marketing, while external barriers were separated into procedural, governmental, task, and environmental. More recently, Arteaga and Fernandez (2010) grouped export barriers into four generic categories: knowledge, resource, procedure, and exogenous.

Internal barriers include inadequate networks, language or cultural differences and the lack of access to necessary finance (Wilson, 2007). Internal barriers of small firms, such as the difficulty to get information, a weak formal planning system, limited resources and the lack of managerial experience with exporting, can result in them being less interested in becoming international.

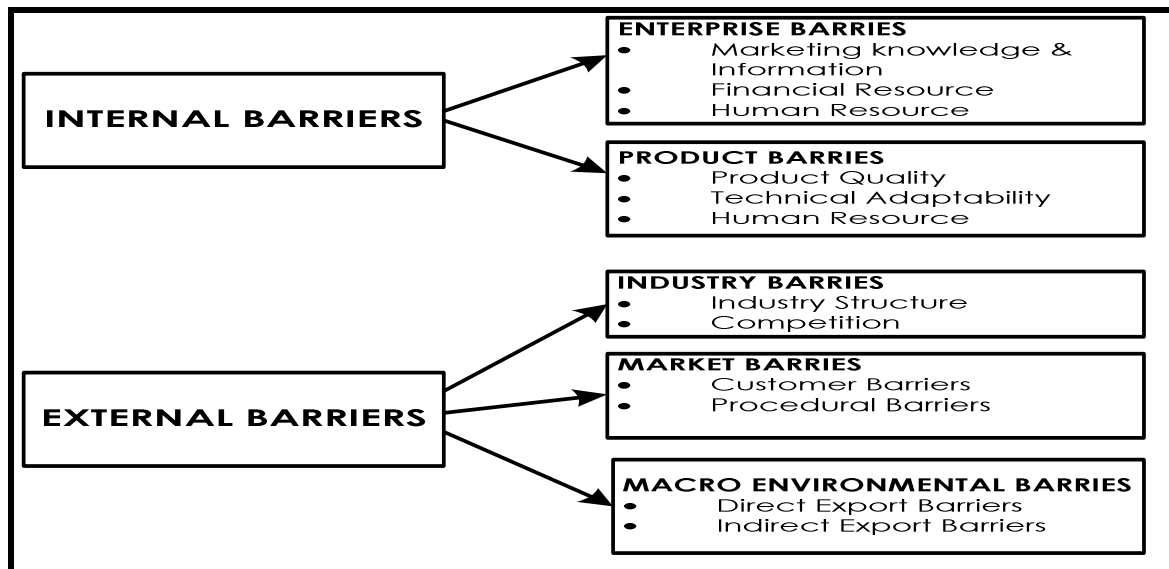
A lack of consensus on the number of underlying factors and the content of each factor are explained as the reasons of so much different lists of exporting barriers and a failure to integrate the results obtained from previous studies (Arteaga and Fernandez, 2010). Not surprisingly, the current literature on SMEs internationalisation barriers is criticised as “too isolated, fragmented, scattered” (Leonidou, 2004) and “fragmented, diverse, and inconsistent” (Sousa, et al., 2008). In the efforts to standardise the measurement scale of exporting barriers, Arteaga and Fernandez (2010) used structural equation modelling to propose four theoretical dimensions, namely, knowledge, resources, procedure and exogenous barriers.

Compared to external barriers, many researchers argued that SMEs internationalisation process is influenced more by internal barriers (Hutchinson,

et al., 2009). Especially, compared to larger firms, many researchers argued that smaller firms may face higher barriers and suffer more pressure on resource limitations, operating difficulties and trade restrictions (Leonidou, 2004; Jaeger, 2008). The high impact of resource barriers on export decisions of small firms can be explained by using the resource-based view (Jaeger, 2008). According to this view, firms with less or no resources will choose to stay in the domestic market rather than export their product overseas. Among these internal barriers, management aversion and attitudinal barriers are considered as one of the major barriers for SMEs when they decide to go overseas. These barriers may be derived from the lack of knowledge, human and financial resources of SMEs (Nummela, *et al.*, 2006; OECD, 2008; Hutchinson, *et al.*, 2009).

Moreover, Hutchinson, *et al.* (2009) indicated that many SMEs firms prefer to stay in the domestic market because of their managers' lack of vision and risk of losing control. In terms of external barriers, strong competition is found as the second most important export barriers and small firms may be influenced more than large firm by this barrier due to their limited resources. When examining Turkish and Lebanese manufacturing firms, Koksal and Kettaneh (2011) found that the imposition of tariff/non-tariff barriers are the main external barriers. Tesfom and Lutz's (2006) review concluded that export barriers in developing countries can be categorised into two major groups, that is, internal and external barriers. The main groups are subdivided into five sub-groups namely, enterprise, product, industry, market, and macro-environmental barriers (see figure 4.1).

Figure 4.1: Tesfom and Lutz's Classification of Export Barriers



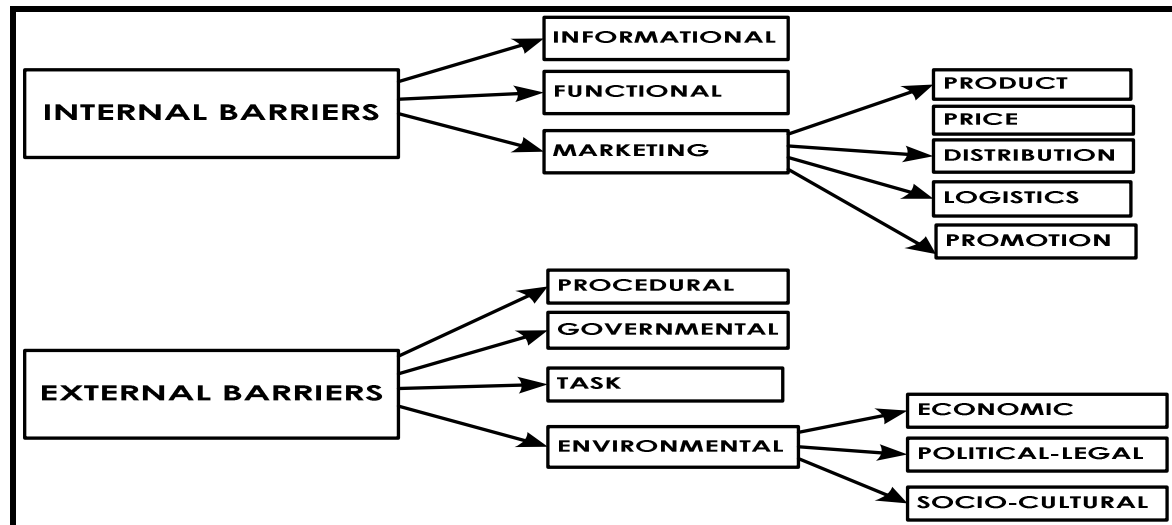
Source: Adopted from Tesfom and Lutz, 2006

Although there are different export barriers' classifications proposed in many previous studies, not all classification are suitable to examine export barriers of SMEs. This classification is more suitable to examine export barriers of large firms which have separate functional department and strategic units (Jaeger, 2008). SMEs often simply "unit a whole range of complex functions" rather than separate them into small strategic units (Jaeger, 2008). Based on this concern, the classification offered by Leonidou in 2004 and modified in 2007 is decided to be used in this current study because of their up-to-date information and their suitability for SMEs. Figure 4.2 shows summary of the classification provided by Leonidou (2004).

In 2004, after reviewing thirty two empirical studies, Leonidou offered a comprehensive classification that paid more attention to firms' functions. According to this classification, internal barriers include informal (e.g. limited information to locate/analyse markets, problematic international market data, identifying foreign business opportunities, inability to contact overseas customers) functional (e.g. lack of managerial time to deal with exports, inadequate/untrained personnel for exporting, lack of excess production capacity for exports, shortage of working capital to finance exports) and

marketing factors (e.g. factors related to the product, price, distribution, logistic and promotion). External barriers consist of barriers related to procedural (e.g. unfamiliar exporting procedures/paperwork, problematic communication with overseas customers, slow collection of payments from abroad), governmental.

Figure 4.2: Leonidou's Classification of Export Barriers



Source: Leonidou, 2004/modified version 2007

As shown in Figure 4.2 above, internal barriers to internationalisation are those obstacles associated with organisational resources and capabilities (Leonidou, 2004). Three types of internal barriers are identified: informational barriers, and functional barriers marketing barriers. Each of these barriers is discussed as follows:

Informational barriers relate to problems in identifying, selecting, and contacting international markets because of information inefficiencies. Examples of these barriers are locating and analysing foreign markets, finding international market data, identifying foreign business opportunities, and contacting customers abroad. These barriers are considered important for both exporters and non exporters, as they are critical in the export management decisions. The problem in recognising, choosing and making contact with foreign buyers and lack of information about international market create barriers for SMEs to enter foreign market (OECD, 2012). Around 13 % SMEs in the European Union claim lack of information about the foreign market as the main

barriers to export. (European Union, 2012) The flows of information throughout the organisation play a vital role to increase the export performance of SMEs (Doole, *et al.*, 2006).

Functional barriers refer to inefficiencies in functions within the firm, such as human resources, production, and finance. These barriers generally have a moderate impact on export behavior. Examples are limited management time to deal with export, inadequate export personnel and shortage of working capital to finance export.

Marketing barriers include the firm's product, pricing, distribution, logistics, and promotion activities abroad. For many exporting firms, this is the largest problem area. Firms may need to develop new products or adapt existing products to suit customer preferences in foreign markets. However, such innovations would reduce possible economies of scale associated with exporting. Another important issue is setting the right price in relation to competition in international markets. Finding the right distribution channel, and reliable foreign partners and representatives, is a major challenge for many exporting SMEs.

On the other hand, external barriers originate from the home and host country environment the firm operates in (Leonidou, 2004). Different categories of external barriers are: procedural barriers, governmental barriers task barriers and environmental barriers.

Procedural barriers relate to operating aspects of transactions with foreign customers. These barriers are caused by unfamiliarity with techniques and procedures, communication failures, and slow collection of payments and often have a high impact on export behavior. Government barriers are twofold. On the one hand, they include limited support and incentives for current and potential exporters. Another form of governmental barriers is restrictive regulatory frameworks and protectionist measures such as tariff and non-tariff barriers. The export procedure and the regulation for exporting differ from country to country (Leonidou, *et al.*, 2007).

Export barriers can be encountered by the firm at any stage of the export development process, from pre-export and other initial stages to extensive levels of international involvement. However, an overview of the broad bodies of literature addressing exporting barriers facing SMEs in developing countries reveals that there has been lack of extensive research on this subject (Tesfom & Lutz, 2006; Altintas, *et al.*, 2007).

4.4.2 BARRIERS OF FIRM INTERNATIONALISATION IN ETHIOPIA

In general, Ethiopia has many problems which hurt its export expansion. The most important problems are: Low levels of productivity and living which resulted in low income lead to low investment in education and health as well as plant and equipment manufacture and in overall infrastructure development. This in turn led to low productivity and economic stagnation. Problems intertwined one with another could be listed as follows. These include dependence of export on primary and traditional sector products and their low volume of supply, land lockedness of the country; under developed financial and other markets, low levels of private sector's role in sectors with exportable and value added products in the economy, low saving or capital formation share of GDP, low level of financial service facility for the private sector, low administrative and financial support, low inflow of FDI in the country and a few engaged in service and non-exportable industry (Ciuriak, 2010; Azmera, 2013).

According to IMF (2014) country report, Ethiopia's global competitiveness suffers from weak export productivity. A key factor is trade costs where Ethiopia lags substantially behind its peers. Based on the world bank's logistics performance index which measures the efficacy of a country's logistics based on efficiency of customs clearance process, quality of trade and transport-related infrastructure, ease of arranging competitive shipments in terms of price, quality of logistics services, ability to track and trace consignments, and frequency with which shipments reach the consignee within the scheduled time, Ethiopia ranks at the lower end of the surveyed countries in all the six key dimensions of logistics covered by the index (IMF, 2014).

Moreover, high cost of doing business across borders in Ethiopia is said to have become a major constraint to economic development. Ethiopia is one of the countries with the highest set of challenges in cross border trade. The World Bank study of trading across borders ranking puts the country at 166th in the world. While, on average, sub-saharan African customs delays are the longest in the world, the average delay is 12 days in the region compared with 7 days in Latin America; the longest delays in the region are in Ethiopia - where the average trader has to wait more than 30 days for customs to clear goods. Transportation delays along the Ethiopia-Djibouti transport corridor are also widespread (IMF, 2014). More recently, Tamirat (2014) in his study conducted specific to internationalisation challenges of Ethiopian SMEs he found out that, Ethiopian SMEs encountered internal as well as external problems. Table 4.3 shows summary of the challenges of Ethiopian SMEs at different stages.

Table 4.3: Internationalisation challenges of Ethiopian SMEs at Different Stages

Before Internationalisation	During Internationalisation	After Internationalisation
Finding appropriate customer Financial problems Minimum government support General business environment Price setting Access to market Marketing and information knowledge Internationalisation knowledge Cultural and language difference	Production problem Supply chain Quality standards Logistics problems Market expansion Financial problem Price variation General business environment Competitiveness Inadequate foreign demand Developing the brand	Competition Productivity, Quality Efficiency Inadequate institutions that facilitates in-ternationalisation Lack of financing insti-tutions Local demand increase The macro en-vironmental factors

Source: Adopted from Tamirat Yigzaw (2014)

4.5 EXPORT BARRIERS AND SMEs PERFORMANCE PROBLEMS

The literature on export performance has been classified in two fundamental approaches: The first compared exporters with non-exporters in order to develop a profile of the characteristics that differentiate the two groups of firms and identify the ones associated with better performance categories. The second approach measures a firm's position based on some dimensions of export performance, the most commonly used dimensions are rate of growth in export sales and percentage of total sales accounted for by exports (Larimo, 2007). From another perspective, some researchers attempted to investigate the motives and barriers to exporting (Leonidou, 2004; Leonidou, *et al.*, 2007). These studies were aimed to determine which variables motivate the firm to involve and expand its exports and to highlight the variables that hinder and discourage the firm's export involvement and expansion in exporting. The current study adopts the second approach to categorise critical internal and external barriers that affect internationalisation performance of Ethiopian SMEs.

According to Tesfom & Lutz (2008) one of the major problems in comparing empirical studies of exporting is that different performance measures have been used by different researchers. This lack of consensus on the conceptualisation and measurement of export performance makes it difficult to compare findings of different studies, because it is almost impossible for scholars to determine whether the conflicting findings can be attributed to the independent variables or the use of different measurement scales of export performance (Sousa, 2008).

The researchers used either objective or subjective measures for export performance (*ibid.*). Some other researchers have used multidimensional measures, combining two or more export performance measures (Belso, 2006; Altintas, *et al.*, 2007). However, in this current study subjective measure of export performance was used to operationalise the variable export performance.

There is a general agreement that export performance is affected by a variety of factors, but there is no agreement on the nature and type of those multiple factors. The export performance literature highlights the importance of the following variables: perceived obstacles to exporting, managerial characteristics, managerial competences, managerial orientation, firm size and export strategy variables. Most of these concepts have been incorporated in the current study, and the use of these is discussed in the relevant sections above.

As a result of the increasing tendency towards a global economy and the interdependence of countries for resources, goods and commercial services, international business involvement is becoming particularly relevant both in terms of national prosperity and for individual organisations. Exporting constitutes the most popular, quickest and easiest way for many small firms to internationalise (Leonidou, *et al.*, 2007). The current study is focused on SMEs due to their recognised importance to economic growth, innovation, job and wealth creation in most countries, as they often account for the main part of the industrial base (Nieto & Fernandez, 2006; Karadeniz & Gocer, 2007). Also, improving the international contributions of the small business sector is widely considered as an increasingly important policy priority in Ethiopia as indicated in five years Growth and Transformation Plan (GTP/2010-15) of the country.

Even if large firms are motivated to involve in export market through different export incentives in Ethiopia. The foreign trade of the country, in recent years, has significantly increased, with the manufacturing industry playing an important role (MoTI, 2012). However, Ethiopian firms are still facing challenges of globalisation with the accompanying international trade integration of the country. Hence, there is a real need for Ethiopia entrepreneurs especially SMEs to target export markets by adopting a global outward-oriented vision of business development to help them face the challenges of globalisation.

4.6 PROBLEMS RELATED TO GOVERNMENT EXPORT INCENTIVES

Government issues, such as regulations, export policy, procedural customs, endowments and incentives (Mtigwe, 2006) also affect the internationalisation process. In addition, internal issues such as, tax legislation, interest rate policy, labor law regulations, and the administrative infrastructure (Boter, et al., 2005) have an impact on a firm's choice to start exporting. For small companies wanting to internationalise, incentives, endowments, and participation in government schemes and programmes provide support and encouragement. However, procedural customs, government trade policy, international standards and regulations can also impose high challenges for realising foreign expansion for SMEs (Suarez and Alamo, 2005).

Similarly, regional or global trade policies that are regulated by international agreements are outside the influence of SMEs (unless a government gives it a flexible interpretation). Inconsistencies amongst the supporting government agencies and in policies in certain countries cause confusion regarding the supports and accurate information (Mahajar, et al., 2006). A major challenge in formulating government policy is the provision of support for SMEs seeking to internationalise (Wright, et al., 2007).

Yet the most potent argument in favor of governmental support lies in the fact that SMEs play a key role in the stability and potential of any national economy. As most SMEs face resource limitations; they need to be supported to acquire the capabilities needed to compete successfully in the international market. Traditionally Government support has been based on the 'level field' concept: as SME lack the expertise and resources of multinational enterprises (MNE) they need support to create a 'level field' of competition (European Commission, 2007). Lambrecht and Pirnay (2005) highlighted that government support measures based on building capacities and supported by consultants produce a high level of 'additionality': as an important number of SMEs in these programmes would not have internationalised without the Government support. This argument works at the same time for countries like Ethiopia where

majority of SMEs rely on Government incentives in different forms. In this regard vibrant export support strategy is a must to enhance competitiveness of Ethiopian SMEs in international market.

Barrier due to insufficient government's assistance can be found in most studies. Among the focus areas is lack of assistance (Craig and Julian, 2005; Rutihinda, 2008) and financial assistance (Pinho and Martins, 2010) while AlHyari, *et al.* (2011) tested the lack of government incentives. Another issue is on insufficient or ineffective export promotion or even incentives (Koksal, 2006). Both exporters and non-exporters have identified the problem being due to incentives and financial assistance as barriers (Pinho and Martins, 2010).

At present, developing countries account for almost 22 percent of world manufacturing. In the 1990s the average annual growth of export of manufactured products in developing countries exceeded that of industrial countries. However, most manufacturing firms in developing countries possess limited resources and need support when they initiate export activities (Tesfom & Lutz, 2008). In Ethiopia, International trade and integration with the world economy has become one of the primary strategies for continued domestic economic growth in the recent years. And with in the country's effort to catch up with the requirement of globalisation and openness to external markets, there has been a clear effort by the government to increase industrial export to non-traditional markets and enhance the competitiveness of national industries.

4.7 PAST EMPIRICAL STUDIES ON INTERNATIONALISATION OF SMEs

Internationalisation of firms is a common topic that has been discussed in widely read literatures. On the same note, Internationalisation of African SMEs has been discussed in various dimensions and across various markets. Previous research that deems relevant to the theoretical questions were reviewed and presented in this section. However, it is worthy to note that none of these researches had been focused on internationalisation of Ethiopian SMEs except one recent study. The current study is the first of its kind in investigating the field

of SMEs in detail in the context of Ethiopia using different theoretical and methodological perspectives.

Accordingly, the major empirical studies dealt with SMEs internationalisation available in the literature are reviewed in this section. This review is needed to establish that the problem discussion in this chapter and research conceptual model, arguments of the current study and operationalisation of measures of export drivers and barriers (Chapter 5) developed for the study is supported by prior research. Presentation of reviewed empirical works in this section focuses on understanding the major theoretical bases that guided studies of international business and to further understand the relationship between different export determinants and the level of involvement of SMEs in international trade.

The reviewed empirical works are of two types: Macro level studies that focused on internationalisation from national perspectives and Micro level studies that focused on firm level issues. Since the current study is concerned with micro (firm) level internationalisation processes and challenges, therefore, emphasis was given to firm level studies. The empirical works are arranged chronologically so as to grasp the development of the concept from time to time. At the end of the section studies conducted specifically on internationalisation of African SMEs are summarised.

Pla-Barber and Escriba-Esteve (2006) studied 271 Spanish exporting firms by using questionnaires. To be included in the study the firms had to derive at least a quarter of their sales from exporting in 1996. Pla-Barber and Escriba-Esteve (2006) found a positive relationship between being a rapid internationalising firm and having a network of relationships with customers and competitors.

Altinas, *et al.* (2007), studied export barriers in Turkish firms. They identified 20 factors and classified them in 5 groups: diversity barriers, procedural barriers, internal inefficiency barriers, competition barriers and government barriers. The results of their study indicated that the procedural barriers factor has the most

impact on export performance, followed by the competition in foreign market factor. Bureaucracy requirements and competition in overseas markets are the most active factors in export barriers. Competition can be examined in the context of hostile environment perceptions of domestic firms to gain competitive advantage (Altinas, *et al.*, 2007). However, this trend has not been the case in Ethiopia. According to the report of National Bank of Ethiopia (2009/10 Annual Report) and Central Statistical Agency (CSA, 2010/11 export performance report), export has been increasing in recent years due to international competitiveness of Ethiopian export items and market opportunities.

Other studies also show that exporters consider high banking charges, low capacity usage, and poor technology as the major problems that affect their business operations (Owusu and Mmieh, 2007). Research shows that exporters' sensitivity to barriers in the foreign market is determined by managerial perceptions which are in turn influenced by contextual factors associated with firm size, resources and capability, export involvement and international experience (Ojala, 2007; Karelakis, *et al.*, 2008). Mavrogiannis, Bourlakis, Dowson and Ness assessed the export performance of Greek food and beverage exporters. Their study involved a variety of variables and also included trade barriers. They concluded that trade barriers have a negative effect on export performance and Greek exporters should be proactive and innovative to overcome export problems and trade barriers. On the other hand, the role of the government is critical in facilitating export performance. Government policies can assist exporters to overcome trade barriers by providing information about overseas markets and host country partners, and by educating managers to design and implement proper export marketing strategies (Mavrogiannis, *et al.*, 2008).

The study of Koksal and Kettaneh-a comparative study of two developing countries, Turkey and Lebanon - employed variables as export barriers in two groups; internal barriers and external barriers. Their study established that the

imposition of tariff/non-tariff barriers by host countries negatively affects the performance of firms in both samples, based on export volume and market share. They found that a strong brand image in international markets offers opportunities for capitalising on economies of scale, developing global markets and helping to establish a firm's visibility and position in the minds of international consumers (Koksal and Kettaneh, 2011). One of the surprising results of this study related to international competition in the target markets, strong international competition positively influencing the performance of Turkish and Lebanese export firms in terms of profitability, since the target market of Turkish and Lebanese firms are geographically and culturally closed.

Kneller and Pisu referred to changes in consumers' preferences, the presence of middlemen and agent representatives, import tariffs, problems finding a trustworthy distributor in the target country, exchange rate fluctuations, risk of losing money in the foreign market, and quality and safety standards as potential export barriers to firms (Kneller and Pisu, 2011). Their studies confirm that firms face export barriers in the form of imperfect distribution of information between buyers and sellers, which translates into additional costs to obtain basic information about export markets, identifying the first contact point, as well as divergences in culture as key factors acting as export impediments in international trade (Kneller, *et al.*, 2008). Mpinganjira's study in Malawi resulted in classifying 17 export barriers in six main groups. This research referred to the importance of human-related factors as personnel barriers, including insufficient knowledge about export opportunities and lack of personnel knowledgeable in exporting (Mpinganjira, 2011).

Jaeger (2008) studied Internationalisation barriers of New Zealand firms. In the study the author found out that export performance is affected by different internal and external barriers. How SMEs can overcome the challenges of globalisation was also emphasised in the study. The author employed classical internationalisation theory as a theoretical frame of reference. Using wholistic approach strategy through qualitative case study approach the author

identified developed new theoretical model which indicates the influence of export performance and internationalisation behaviour.

The research was based on the cases of fifty export firms across the major business sectors from Newzealand's manawatu region. The study design involved a postal survey, background research, in-depth interviews and observations. The triangulated data were compiled into case studies and analysed using Lisenhardt's grounded approach. Two main categories of export barriers were identified: (1) industry or product-specific barriers, and (2) common or shared barriers independent of industries and products. The research design enabled research into management patters independent from sectors or industries. The findings suggest that export barriers determine internationalisation strategies. Hower the author didn't mention the pattern, entry modes, followed by SMEs.

Ojala, (2009) also studied the market entry and entry mode choice of eight small and medium-sized Finnish software firms in the Japanese market. He found that, despite the psychic distance between Finland and Japan, most of the firms entered Japan at a very early stage of their internationalisation process by using direct entry modes. This was mainly due to the market size, sophisticated industry structure, and requirements for intensive cooperation with the customers during the sales process. Also, that the firms were able to overcome psychic distance by hiring local employees and western managers who already had working experience in the Japanese market. According to him, psychic distance is based on a manager's personal experiences and feelings about how distant a country is rather than on cultural differences between the countries.

Ha Thi (2009) studied internationalisation in view of Internationalisation, Competitiveness Enhancement and Export Performanceof Emerging Market Firms in the context of Vietnam.The author studied internationalisation in view of value chain analysis. For Vietnamese firms, as well as four other firms from emerging markets, internationalisation trajectories may differ considerably from

the internationalisation patterns portrayed in classical theories (such as the Uppsala Model) based on observations of the internationalisation of firms from Western, developed market economies.

A number of Brazilian software development firms were studied by Dib, et al. (2010). They studied 79 firms of which 35 were born global firms and 44 firms internationalized in the traditional way. The born global firms were younger and smaller in comparison to the traditional internationalising firms (Dib, et al., 2010). It was found that firms that spent more on research and development were likely to be born global instead of being traditional internationalising firms. This implies that born global firms are more innovative which also suggest that there will be more opportunities to operate abroad.

Henon (2010) studied the Internationalisation of Small- and Medium-sized Enterprises in the context of Argentina. The author examined internationalisation through two different types of internationalisation strategies: 1) a short-term internationalisation strategy, which depends on macro and microeconomic factors exogenous to firms, and 2) a long-term internationalisation strategy, which implies a strong commitment by firms to become competitive at international levels.

The results of quantitative data suggest that managers may have to make a strategic commitment to upgrade and expand firms' resources and capabilities to achieve long term internationalisation. The results offer evidence of the importance and potential risks of participating in a network that can provide access to scarce resources in an environment where public institutions may not offer an appropriate level of assistance to SMEs.

Finchelstein (2010) conducted a comparative analyses to study firm internationalisation by using the context of Argentina, Brazil and Chile. The author viewed firm internationalisation from a state-centred perspective which is a rare approach in the study of international business research. The hypothesis that was tested throughout his research is that an active state, which develops

a coherent inter-temporal set of public policies, improves the conditions for firms' internationalisation. The provision of signals for institutional continuity is also essential for encouraging competitive behaviour among firms. His finding can serve as an input for policy makers especially in developing economies.

Park (2010) Studied internationalisation through the perspective of "Born Globals" in the context of South Korean firms. Internationalisation was examined in view of its antecedents and performance. Using large scale quantitative survey the author studied the major economic and business characteristics of Born Globals in South Korea. The findings show that public policy is directed to SME internationalisation activities, but focuses on support only for export promotion. It is also found that South Korean Born Globals have a number of network relationships with customers and suppliers but have relatively few connections with government agencies. This research also investigates the associations between the international business experience of managers and the use of networks and the subsequent effect on the capacity of Born Globals to perform well in international markets.

Stoian(2010) Studied internationalisation of SMEs in view of international marketing where emphasis was given to export behavior, international marketing strategy and export performance based on data collected from Spanish SMEs. The author identified and proposed different research areas important to understand the following: 1) The role played by managerial characteristics and perceptions in determining export involvement and expansion; 2) The influence the internal and external determinants have on objective export performance and satisfaction with export performance and the potential impact of certain dimensions of export performance on other export performance dimensions; 3) The influence the standardisation/adaptation of the overall international marketing strategy has on objective export performance and satisfaction with export performance, simultaneously investigating how this relationship is moderated by certain internal and external determinants.

Theoretical support is provided by several approaches: the gradualist approach to the internationalisation phenomenon, the Resource Based View (RBV) applied in the international context, the network theory and the contingency approach to the international marketing strategy. Even if the author used qualitative and quantitative approaches it was not integrated to comply with the requirements of mixed research approaches. By employing the qualitative methodology based on in-depth case studies profound understanding of the internationalisation process in Spanish SMEs was gained. Consequently, a structured questionnaire was developed for further carrying out the quantitative study.

Senik (2010) studied, SMEs internationalisation in reference to the context of Malaysia in terms of models, processes and factors influencing internationalisation. The author used stages, rapid internationalisation and born global theories of internationalisation and developed an interesting model that guide internationalisation of SMEs. However, the integrated model's categorisation of impediments and barriers are not in line with other researcher's categorisation of factors.

The researcher used critical realism paradigm through qualitative method and explained SMEs internationalisation awareness, process, driving forces and influential factors in light of stages, Network, Resource based view and international entrepreneurship perspectives. Through these perspectives, the patterns and dimensions of internationalisation, including the modes of foreign entry, market selection, triggering factors, and awareness of international opportunities were investigated, as were the problems and challenges faced by internationalising firms and the key drivers influencing the internationalisation process. However, the empirical findings of this current study as shown in chapter 7 partially disagree with what was identified by Senik (2010).

Juho (2011) Studied accelerated internationalisation as a network-based international opportunity development process. The study centered on entrepreneurial approach and focused on SMEs operating in high tech

environments of Finland. The theoretical background was based on international entrepreneurship literature and internationalisation process research. The research setting was small high tech firms at the start of the internationalisation process. The firms represent two distinct types of internationalising firms, an international late starter and international new venture. The empirical study was a qualitative longitudinal comparative multiple case study of two case firms. The main data gathering method was interviews and observations supported by secondary data.

The author identified four theory-based determinants of internationalisation vis:- 1) processuality 2) knowledge, 3) networks and 4) opportunity development. These determinants were used as the key elements for exploring accelerated internationalisation as an outcome of interlinked entrepreneurial actions. The active networking and learning undertaken in pursuit of international opportunity development are the intertwined entrepreneurial actions which are likely to create an accelerated internationalisation process.

Added to the above discussions Table 4.4 summarises exclusively past empirical works conducted on African firms' internationalisation issues. The review informs the formulation of research argument and justification of existing research gap in the area which is discussed in the following chapter. Table 4.4 summarises the 30 recent studies reviewed in the course of this current study. The table provides information on the author(s) and publication date, sample size, country and industry contexts, type of firms involved, data collection method, and key issues investigated.

Table 4.4: Recent Firm-Level Internationalisation Studies Undertaken in Africa

AUTHOR/ DATE	SAMPLE SIZE	COUNTRY	INDUSTRY & FIRM SIZE	DATA COLLECTION METHOD	KEY VARIABLES EXAMINED
Chowdhury (2006)	300 Small Exporting & Non Exporting firms	Kenya, Tanzania	Food processing, textiles, & tourism Small (up to 50)	Survey	Export performance effects of ICT investments, market experience, & productivity
Esterhuizen & Rooyen (2006)	37 agricultural exporting firms	South Africa	Agro food/ various	Survey	Influences on export competitiveness of agro food firms
Hinson & Sorenson (2006)	60 nontraditional exporters	Ghana	Nontraditional/SMS	Survey	E-business adoption & export involvement
Kropp, Lindsay & Shoham(2006)	373 INVs (539 Entrepreneurs & senior Managers)	South Africa	Multi-industry Various sizes	Survey	Entrepreneurial orientation (innovativeness), learning orientation, market orientation, & international entrepreneurial venture performance
Kyeraboah, Coleman, & Biekpe (2006)	100 Nontraditional exporters	Ghana	Nontraditional/ Various	Secondary data, survey	Corporate governance & export performance
Rankin, Soderbom, & Teal (2006)	1012 firms – exporting & non-exporting	Kenya, Ghana, Tanzania, South Africa, Nigeria	Multi-sectoral Small, medium, Large	Survey, panel data	Level of export involvement, & exporter characteristics size, productivity/ efficiency level, ownership structure, sector, age, & capital intensity
Fafchamp, El Hamine, & Zeufack (2007)	859 firms	Morocco	Manufacturing—food processing, textiles, garments, leather, electrical machinery, chemicals & plastics/ various	Panel & Cross sectional data	The effect of experience & learning productivity learning & market Learning on exporting behaviour
Ibeh, Ibrahim, & Ezepeue(2007)	78 exporting & non-exporting firms	Nigeria	Multi-manufacturing Mainly SMEs	Survey, interviews	Export stimuli & international activity
Kimuyu (2007)	279 firms	Kenya	Multi-manufacturing/ Various	Survey	Corruption & export propensity
Okello & Swinton (2007)		Kenya	Agriculture/ Large vs. small firms		Large firms use owner equity; small leverage network groups
Wolf (2007)	97 enterprises	Ghana	Non-traditional agriculture & manufacturing/ various	Survey/panel	Foreign investment & exporting
Abor, Adjasi, & Hayford(2008)	3,588 firms	Ghana	Various/ Various	Survey	FDI, exporting, export performance
Belwal & Chala (2008)	8 farms	Ethiopia	Floriculture	Case study	Export success catalysts & barriers
Robson & Freel (2008)	500 entrepreneurs	Ghana	Various & SME (under500)	Survey	Characteristics of exporters
Okeahalam & Wood(2009)	1 firm	South Africa	Food retailing/ Large	Case study	Financing methods for international expansion
Okpara (2009)	89 firms-exporting & Non-exporting	Nigeria	Various-manufacturing SMEs	Survey & interviews	Strategic orientation, managerial orientation, & exporting
Okpara & Koumbiadis(2010)	72 firms exporting & Non-exporting	Nigeria	Various-manufacturing/ SMEs	Survey	The effect of strategic orientation & firm resources on exporting decision
Belwal & Hassen(2010)	4 major export associations & 10 Individual exporters	Ethiopia	Agricultural product	Survey	Opportunities and problems related to chat export and its implication for internationalisation of Ethiopian exporters
Khemakhen (2010)	420 exporting firms	Tunisia	SMEs	Survey	Factors affecting entry mode choice
Khuval, Benson, & Datta (2010)	40 entrepreneurial international firms	South Africa (China & India)	Various-7 industries/ Small	Survey (in-person)	Effects of internationalisation on HRM practices

Table 4.4 Continued.....

Khuval, Benson, &Datta (2010)	47entrepreneurial international firms	South Africa	Various Small	Survey	Effects of organisational entrainment or temporal fit on international performance
Naude & Matthee(2010)	Not specified	South Africa	Manufacturing Various	Survey	Location near export hubs & transportation infrastructure& exporting
AmankwahAmoah&Debrah(2011)	Airlines	Multi-country	Airline sector/various	Interviews	Success factors in the international airline industry
Crick, Kaganda, & Matlay (2011)	205 high- & low-intensity exporters	Tanzania	Various SMEs	Survey	Factors influencing export intensity levels, international competitiveness, market selection strategy
Henson,Masakure, &Cranfield (2011)	102 exporting firms	10 countries	Fresh-produce/Variou	Survey	Determinants of Global GAP certification and effect of this on export sales
Matanda & Ndubisi (2011)	Fresh produce exporters	Tanzania	Various	Survey	Inter-firm relational capabilities, internationalisation, and firm size
Koubaa and EpKoubaa (2012)	68 Tunisian exporters	Tunisia	Small and large SMEs/Variou	Questionnaire based Survey	Factors that affect selection of export destination. Input of mono destination and multi destinations exporters used
Matanda(2012)	25established SMEs	Kenya	Manufacturing small firm	Case study	Patterns & drivers of SMEs internationalisation
Kiros Hailu(2012)	Secondary data source	Ethiopia	Secondary data source	Error correction model	Determinants of Export Growth Rate in Ethiopia for the period of 1980-2010
Akomea,et al.,(2014)	40exporting pharmaceutical manufacturing	Ghana	Pharmaceutical	Personal interview	Export drivers & barriers

Source: Author's own compilation from empirical literature (2015)

As shown in Table 4.4 a majority of studies focused on manufacturing firms, with only a few focused on service firms (e.g., Amankwah and Debrah, 2011; Okeahalam and Wood, 2009). Sample size varies between 7 and 1012, reflecting the mix of qualitative and quantitative methods used in the reviewed studies. The questionnaire survey was the predominant data collection method, with relatively few studies using personal interviews or combining personal interviews with questionnaire survey. This shows existing methodological gap in past empirical works. Using mixed research methods (Survey + personal interviews) the current study can fill in this methodological gap.

As to the geographical scope concerns among 30 recent empirical works only 3 of them deals with Ethiopian export issues. This shows scarcity of empirical studies in the area of firm internationalisation. Especially in the area of SMEs internationalisation the current study is the first of its kind and will serve as a

starting point for other researchers in the area. Last but not least, the papers reviewed in this study typically investigated aspects of internationalisation activity of African firms, drawing upon micro-level data. Not surprisingly, the preponderant form of international engagement observed was exporting, but there were some exceptions. Overall, the studies cover firms from all regions of Africa, though there are still many African countries not represented in this review.

4.8 RELEVANCE OF THE PROBLEM AREA INVESTIGATED

The world is changing dramatically. The evolution from a small domestic firm to an established and international company is a key step for any company. In recent years, it has been required that manufacturing firms consider internationalising their operations. In times of globalization, this issue is greatly significant for scholars and practitioners, and a great deal of research has been conducted in this field (Reiner, *et al.*, 2008). For over 50 years international business has been the subject of extensive research enquiry, and yet to date there is no universally accepted model of international business, let alone the same theory of international business (Leonidou and Katsikeas, 1996 and Chandra and Newbury, 1997; cited by Mtigwe, 2004)".

Manufacturing is under-developed in Ethiopia – even by African standards. Several mutually reinforcing factors have conspired to prevent the emergence of a stronger manufacturing base in the country historically, including a history of isolation from global markets. Ethiopia has had limited success in a few narrow areas, such as leather and textiles. According to Dinh, *et al.* (2012), Ethiopia has significant potential in several light manufacturing subsectors: apparel, leather products, agribusiness, wood products, and metal products. With policy reforms that have already been proven in application in other countries, Ethiopia's export potential could be expanded by orders of magnitude.

However SMEs are experiencing augmented competition as foreign firms get access to local markets, SMEs have superior opportunity to internationalise, since potential markets have moved beyond national borders (Ghanatabadi, 2005). "In the present world economy no market is safe from competition and no firm can afford to stake its future on the assumption that it 'owns' its home market. It is particularly necessary for SMEs in developing countries to internationalise; due to the increasing competitive pressure and reduction of the direct subsidies and protection they used to receive from their governments.

Heavily dependent on coffee export for revenue, the government initiated different measures in recent years. Nevertheless, improved relations with different nations and opportunities for economic exchange with China and India have broadened Ethiopia's economic prospects. In the first Growth and Transformation programs in Ethiopia (2010-2015) efforts to expand non-agricultural products introduced as the root foundation for export development. Since they prospered in the last quarter of GTP goals, government is being bound over targeting and giving direct and indirect award to exporters to increase Ethiopia's share in international marketing and reinforcement of exporting products' competitive advantages in international markets.

Nowadays, Ethiopian government adjusts his focal point headed for non-agricultural export and provides some promotion programs. This is a good promotion for firms to revise their strategy toward export. In Ethiopia and conceivably in other developing countries, growth of infrastructure is an added inducement for international business for companies. Ethiopia's advantages lie in the combination of natural resources that serve as inputs for light manufacturing industries (e.g., cattle for the leather industry, forests for the furniture industry, cotton for the garment industry and a large agricultural base for the agro-processing industry), abundant low-cost labor, which gives it a

comparative advantage in less-skilled, labor-intensive light manufacturing, and cheap hydroelectric power.

Additionally, governments benefit from the flow of hard currencies. Based on the discussion so far, due to the value of SMEs in economic development and lack of empirical studies on internationalisation of SMEs in developing countries, this area is selected for this research. Because of the nationality and professional experience of the researcher, and accessibility of the data, the study area was limited to Leather and Leather goods manufacturers in Ethiopia.

Studies have reported few firms have entered foreign markets in Ethiopia, especially in some potential industries like Leather and Leather goods. This study focused on Internationalisation through export, because business has become progressively more globalized, companies face increasing competition. Moreover, international marketing is critically important because business has become ever more globalized. Notwithstanding challenges faced by Ethiopian firms, there are plenty of market opportunities that were offered by different countries. For instance, the European preferential markets through Everything But Arms act has given non quota and tax free opportunities for some sub-Saharan African countries including Ethiopia. Other preferential markets with tax-free and quota-free also came from the USA government through the African Growth and Opportunity Act (AGOA), the Japanese government, the Austrian government and the Canadian government.

Moreover, the regional preferential market, which is the Common Market for Eastern and Southern Africa (COMESA), should also be considered. Due to supply constraints, however, there appears a tendency of not fulfilling the demand of these countries. One has to note also that all these market opportunities are guarantee for export unless exportable products are being produced. Therefore, by providing all the necessary incentives to producers and exporters, the government should encourage quality products to be produced and exported. Without expanding the supply base, it is unthinkable to use these market opportunities to the optimum level.

There are numerous benefits that exporting can offer to both national governments and business organizations. From the macro-national perspective, it increases domestic employment levels, provides a source for foreign exchange, assists in the development of new technologies, creates backward and forward linkages in the economy, and leads to higher standards of living. At the micro-business level, it improves the firm's financial position, helps to develop competitive advantages, enriches managerial skills, makes better utilisation of production capacity, and facilitates company growth.

It is believed in general that exporting symbolises one of the main forms of international involvement for firms. This is mainly because of the fact that it does not soak up the assets that overseas operations and joint ventures normally require and, therefore, tends to be associated with less risk. To this end, Government of Ethiopia has shown strong interest in addressing key obstacles of business by implementing a range of financial and non-financial instruments. As part of a broader industrial and trade development strategy, the GTP (p.61) plans to establish Special Economic Zones (SEZs) as a platform for catalysing diversification, upgrading and growth. Similarly, to promote the Micro, Small and Medium Enterprise (MSME) sector, GoE intends to facilitate development of industrial clusters, which would connect firms in a particular field with links to related institutions such as financial providers, educational institutions, and various levels of government (GTP, 2010/11).

These initiatives aim to enable firms to overcome constraints in the areas of capital, skills, technology, and logistics as well as to grow and compete by fostering production value chains and achieving efficiency gains. To ensure that the SEZ platform energizes MSMEs along with FDI and larger domestic investors, the Government recognises that policies to support effective links between local SMEs and the globally-competitive firms anchored in the zones will be critical. Since specialised lending to MSMEs typically comes at a relatively later stage of banking sector development, GoE is considering using lines of credit as effective tools to build capacity in the banking sector and to

improve access to finance by MSMEs. Simultaneously, there is a need for capacity building, financial infrastructure development and a proper corporate governance framework, so that commercial banks (state and private) can play their intermediation function in financing MSMEs (GTP, 2010/11).

Although exporting can offer many benefits to smaller manufacturers, a large number of Ethiopian SMEs fails to involve in export operations despite some incentive programs. The researcher argued that the conduct of this investigation, as demonstrated in this study, represents an important step towards achieving a re-conceptualisation of the internationalisation process of small and medium-sized firms from whollistic view point using both qualitative and quantitative approaches. As emphasised in the methodology chapter, the study and the related findings are not meant to be a basis for generalisations regarding the process that other firms, both in Ethiopia and overseas, undergo as they pursue opportunities across geographic boundaries. However, this research undertaking will have significant implications on the subject of small firm internationalisation in terms of the following deliverables:

- An integrated conceptual model that reflects the possible interplay/interrelationships among several theoretical constructs drawn from internationalisation, entrepreneurship and strategy research.
- An enhanced understanding of the process that Ethiopian SME undergoes as part of the effort to overcome the barriers to penetrating international markets and get benefitted from different export incentive programs.
- The identification and description of factors that can facilitate the internationalisation of Ethiopian SMEs surveyed in this study.
- A frame of reference for further investigations in to internationalisation process of other Ethiopian SMEs or even those in other countries.

4.9 CHAPTER SUMMARY

This chapter discussed barriers to exports faced by manufacturing SME's that is contained within existing literature and to relate this to Ethiopian existing secenario. It has also identified certain export stimuli to contrast with these barriers. What has become clear is the sheer number of obstacles that need to be negotiated when a firm considers entering the international market. For a small enterprise with limited knowledge and experience, these obstacles can seem insurmountable, blocking any attempt to sell products abroad.

From the theories on the literature study, both internal and external motivations as well as barriers towards internationalisation were discussed. These are important aspects as they motivate or hinder a firm to export and thus internationalise. Numerous motivating factors for internationalisation were identified in the literature. It was found that firms are motivated to internationalise because of a saturated and small domestic market, competitive pressure, and opportunities in the foreign market and to achieve growth. Barriers include inadequate networks, language or cultural differences and the lack of access to necessary finance. The lack of knowledge of foreign markets and transportation barriers were barriers found to be the most.

The chapter also provided a brief overview of existing empirical evidence on the various aspects of internationalisation. The relevance of the problem was also illustrated in light of the significance of SMEs in supporting economic development of the country. It was long mentioned that, SMEs are significant because they provide benefits such as entrepreneurship, employment, exports and productivity to an economy. Thus, conducting research on this topic will complement the current export led economic development policy direction followed by the Government of Ethiopia.

The chapter concludes with a summary of the major problems as suggested in different scholarly works and how these insights feed in to the research questions and conceptual model and hypotheses formulation in the following

chapter. The next chapter will present major arguments and conceptualisation of main constructs that shape the methodology chapter (chapter 6) and the result and findings chapter (chapter 7).

CHAPTER 5

HYPOTHESES FORMULATION AND CONCEPTUAL MODEL

5.1 INTRODUCTION

The previous chapter discussed the problem areas of the study in light of previous empirical works. The objective of this chapter is to present the major research questions and hypotheses of the study. It starts with presentation of major arguments and research questions. Next section deals with the formulation of hypotheses to further explain the research questions and to put the main constructs in measurable forms. The section further explains how the research questions are translated into hypotheses and how the hypotheses are operationalised in the current study. It identifies the background to Operationalisation of Concepts, main research concepts, dimensions of each concept, indicators for each dimension, and selected models for measuring theoretical constructs in the hypotheses. The relationship among different variables is presented in the conceptual model. The conceptual model guided the procedures of empirical data collection and data analyses in the subsequent chapters. The chapter ends with summary of main issues presented in the body of the chapter.

5.2 MAJOR RESEARCH ARGUMENTS AND RESEARCH QUESTIONS

Though the globalisation and liberalisation trend has opened more vistas to SMEs for the internationalisation process, many past research findings report many drivers and barriers at domestic and international level, especially for Small and Medium Scale firms. More importantly, the new environment's foreignness has essential influence on the process of internationalisation of small and medium enterprises. Saixing, *et al.*(2009) have said that, although the internationalisation strategy can be considered as a growth source for companies' profitability, it can also bring huge of losses as the survival of firms in

the global environment is very tough. Gurmeet, *et al.*(2010) have argued that, the advantages that the SMEs can gain from the internationalisation process are multiple but, the barriers usually hinder SMEs seeking to access international market. Therefore, because of the several barriers that SME's confront, they have drawn the attention of policy makers and various governments who have realised that, these barriers have the effect of reducing the ability of these firms to achieve their full potential from international markets. The current study tried to explore and analyse those internal and external factors that either trigger or inhibit the internationalisation process of SMEs in developing economies using empirical data of Ethiopian manufacturing firms operating in Leather and Leather goods Industry.

Ethiopia needs to increase its exports in general, but even more so its exports of manufactured final goods. In terms of number the majority of Ethiopian manufacturing firms belong to small and medium sized enterprises. Therefore, the factors hindering the manufacturing SME's from exporting need to be determined if a solution is to be found for increasing manufactured exports. Chapter four of this study identified a large number of barriers to export faced by SME's, as well as internal and external export stimuli contained in existing literature. There was also a role identified for government, though it remains debatable where this role starts and ends. In light of the literature review, problem discussion and the aims of this study, the following research questions need to be answered to add to the understanding of determinants and impediments of manufacturing SME's in the context of internationalisation.

From extant literatures reviewed in the previous chapters the researcher found out gaps in existing works and raised major arguments to explain internationalisation process of SMEs in Ethiopia. Comparing the reviewed works with what is prevailing in Ethiopia five research arguments were raised to guide the empirical phase of the current study. The research arguments aid in the development of research questions. The following discussion presents the research arguments and related research questions.

5.2.1 ARGUMENT I: DRIVING FORCES FOR THE ETHIOPIAN SME INTERNATIONALISATION

Evidence from previous extant literatures suggested that different internal and external triggering factors lead SMEs to internationalisation. These can include both the motivational factors that trigger internationalisation and the impediments to internationalisation (Leonidou, 2004; Goitom & Clemens, 2006; Senik, 2010). Despite differences across the economies, the rise in the number of SMEs venturing into the international arena over the past decade is notable. This is due to a mix of pull and push factors influencing the internal and external environment of a firm such as the liberalisation of trading systems, expansion of regional economic integration, growing awareness of market opportunities, unsolicited demand from overseas consumers, increasing competition in the current markets and stagnating sales. As seen in the problem discussions under Chapter 4, there are several authors who analysed the classification of export drivers from different perspectives. Consequently, the contradictory findings on triggering factors of SMEs internationalisation especially from developing economies warrant investigation. Therefore, current study argues that what most likely factors trigger Ethiopian SMEs to venture into international markets is not yet studied and therefore the drivers of SMEs internationalisation are to be examined. Since past studies described the area of export drivers differently, there is clearly an important aspect of asking "why SMEs involve in internationalisation especially in developing economies". The first research question can be derived from this reasoning:

RQ1: What driving forces motivate the internationalisation process of Ethiopian SMEs in manufacturing industries?

Some export drivers/stimuli have been identified in existing literature. Export stimuli refer to factors which motivates a firm to start exporting. There are a number of stimuli but the list has been limited to those factors listed by (Leonidou, 2004 and 2007). The list of stimuli is limited, and many of the stimuli take the form of government assistance. The objective of this question is to identify factors that initiate and further strengthen internationalisation. The

answer to this question will help in forwarding policy recommendations that targets both exporters and non-exporters.

5.2.2 ARGUMENT II: SMES INTERNATIONALISATION PATTERNS AND ENTRY MODES

In general, internationalisation can be understood as firm-level activity that crosses national borders. According to Jones and Coviello (2005) internationalisation can be captured as “patterns of behaviour, formed by an accumulation of evidence manifest as events at specific reference points in time”. Hence, internationalisation patterns have been defined in this study in line with Jones and Coviello (2005) and Kuivalainen, *et al.* (2012) as firm-level behaviour that crosses national borders and can be evidenced at specific points in time. Prior research on SME internationalisation has discussed three major internationalisation patterns: gradual internationalisation as proposed by the Uppsala model, radical internationalisation as proposed by past research on born globals and international new ventures and radical but late internationalisation as evidenced by the so-called born-again global firms (*ibid.*).

On the other hand, the internationalisation process can be identified from the dimensions and patterns of internationalisation. Stage model theorists who suggest a unilinear evolutionary internationalisation process, with incremental stages and a well-defined mode of internationalisation at each stage have attracted extensive criticism (Johansen and Valneh, 2009). However, some may decide on higher commitment entry modes such as partnership or joint ventures.

As indicated in literature review, there is an array of modes for entering international markets, such as exporting, licensing, non-equity strategic alliances, joint ventures and wholly owned subsidiaries, each of which has its own advantages and disadvantages (Lu & Beamish, 2006). But exporting is still the primary foreign market entry mode used by small firms in their internationalisation efforts presumably because it offers an effective means of

international expansion without over-extending the capabilities or resources of the firm (Bradley, *et al.*, 2006).

Since research on SME Internationalisation is relatively lacking within Ethiopia, it is unclear whether the internationalisation pattern is similar to that of the incremental models, rapid internationalisation models, network theory, resource-based view or international entrepreneurship theory. It is imperative raising the question "Which model best fits to explain the pace of internationalisation for Ethiopian SMEs in the manufacturing industry?"

Notwithstanding the limitations associated with each entry mode, international expansion is an important growth strategy for SMEs when the scope of their business is geographically restricted. Some researchers have asserted that when SMEs initiate internationalisation, they will tend, due to lack of resources and advantages, to export goods as their mode of foreign market entry. In addition, researchers have asserted that such firms will typically increase their international involvement through a series of carefully planned stages (Cheng & Yu, 2008).

Added to the above lines of arguments, the operations in a foreign country are supposed to start by indirect entry modes, which do not require extensive knowledge about the environment of the target country and more commitment to the market. According to this, indirect entry modes increase a firm's knowledge about the target country and allow it to learn about how to deal with the customers in that country. Once the country has become more familiar for a firm, direct operations can start there (Ojala, 2008).

Thus, in line with the propositions of stage models, the movement through the stages of the entry process is intimately connected to the development of institutional knowledge, making it easier to develop customer relationships. As a consequence, the more relationships in a foreign country that have reached later stages, the more established and internationally experienced the firm becomes and the higher the degree of internationalisation of the SME. And also

the more countries in which the SME has established relationships, the more internationally experienced is the firm (Jansson and Sandberg, 2008).

To further strengthen the role of firm relationship domestically and internationally it worth considering how the network theory explains SMEs internationalisation patterns in developing countries like Ethiopia. Because networking affects the pattern of internationalisation it is important to discover how, and to what extent, networks assist the internationalisation process of Ethiopian SMEs. It can be argued that having certain resources enables an SME to internationalise, but what kind of resources trigger the decision to internationalise? Furthermore, small firms are usually associated with being entrepreneurial, which can provide them with a competitive advantage, and this association or relationship needs to be investigated.

From the above discussion about patterns and strategies of SMEs international market entry modes it is possible to argue that, there is no one best mode to enter international market. Choosing entry modes is governed by evaluating cost and benefit of each alternative entry strategies and associated risk factors. With this background argument the third investigative research question for the current study was formulated as:

RQ2: What patterns and strategies of internationalisation do Ethiopian manufacturing SMEs follow?

Answer to this question will explain the behaviour of Ethiopian SMEs in the context of existing theoretical perspectives. Reviewed literatures suggest that firms may follow either traditional pattern of internationalisation or rapid internationalisation patterns. At the same time the answer will inform about the preferred entry modes common to Ethiopian firms.

5.2.3 ARGUMENT III: BARRIERS TO SMEs INTERNATIONALISATION

A 2004 study by Leonidou on “An Analysis of the Barriers Hindering Small Business Export Development” classified internationalisation barriers as being internal and external where the former referred to the lack of organisational resources,

capabilities and management approach, while the latter referred to business environments of the current and potential overseas markets. While numerous studies highlight the challenges faced by SMEs internationalising, few provide meaningful cross-comparisons of best practices across economies. This is possibly due to the differences in trade and internationalisation policies, economic structure and needs, SME definition and the involvement of private sector multipliers.

Azmera (2013) in her study of "The Role of Government policy package in boosting Export :a Comparative Study of Ethiopia, South Korea and Vietnam" found out that export related problems of Ethiopian economy is multifaceted and include among other things: dependence of export on primary and traditional sector products and their low volume of supply, land lockedness of the country; under developed financial and other markets, low levels of private sector's role in sectors with exportable and value added products in the economy, low saving or capital formation share of GDP, low level of financial service facility for the private sector, low administrative and financial support, low inflow of FDI in the country and a few engaged in service and non-exportable industry. These problems deal with macro level analyses of export barriers and suggests further micro level analysis of Export barriers in the context of Ethiopia.

In conclusion past extant works presented in the problem discussion chapter tried to explain a concept for rating the need to assess different hindering factors. The different views of the authors clearly show that "understanding internal and external barriers" is an important question. The differences and similarities in how to categorise export related barriers and identifying the most pressing barriers that hinder involvement of Ethiopian Manufacturing SMEs in international business has promoted the second investigative question of this study:

RQ3: What are the factors that hinder internationalisation process of SMEs in manufacturing industries in Ethiopia?

The answer to this question connects more closely with the literature review and the barriers already identified. It is suggested that the answers to this question will be found among the barriers identified in the existing literatures special emphasis was given to those factors identified by Tesfom and Lutz (2006) as well as internal and external barriers classified in the works of (Leonidou, 2004; Leonidou, *et al.*, 2007). The significance of the answers will, however, show perceived challenges listed by exporters and non-exporters. Exporters will give their view based on experienced severity of the various barriers whereas non-exporters will see the same issue from different angle.

5.2.4 ARGUMENT IV: EXPORT BARRIERS AND EXPORT PERFORMANCE

Firms' survival and expansion and the consequent economic growth of numerous countries are strongly contingent upon a better understanding of the barriers that influence their export performance (Sousa, *et al.*, 2008). Exporting represents the most popular, quickest and easiest way for many small companies to internationalise (Leonidou, *et al.*, 2007). In order to be able to improve the international contributions of SMEs it is crucial to identify and analyse the influence that certain export determinants may have on export performance. During the last four decades, numerous studies have related one or multiple of these determinants to export performance, however, most of them adopting either the internal perspective (managerial and/or organisational factors) or the external one (environmental and/or industry factors), while only few have considered both groups simultaneously.

Furthermore, no universal agreement has been reached in the international business literature regarding which are the relevant impediments of export performance and their measurement (Sousa, *et al.*, 2008; Wheeler, *et al.*, 2008) or how to measure export performance (Sousa, 2004; Wheeler, *et al.*, 2008). Nevertheless, it has been acknowledged that export performance barriers should be assessed at two main levels – the internal and the external levels (*ibid.*) and that, in order to provide a more comprehensive picture of export

performance, both the objective and subjective modes of assessment should be employed (Sousa, 2004; Wheeler, et al., 2008).

Thus, it is apparent from both the export literature that exporting firms face a wide range of barriers which can constrain their efforts to developing their export market. It is considered that the causal link between perceived export constraints and export performance is likely to be that the former gives drop to the latter. Accordingly, the argument is that the greater the level of certain perceived export constraints SMEs are less likely to perform well. This argument is further strengthened that, listing export barriers is not enough to understand and identify the most pressing barriers and point out policy recommendations that aid decision makers in developing economies. Especially for countries like Ethiopia it is imperative to see the influence internal and external barriers on performance results of exporting SMEs. Based on the above theoretical synthesis the following research question was formulated:

RQ4: What is the impact of internal and external export barriers on the internationalisation performance of manufacturing SMEs in Ethiopia?

This question deals with the influence of different barriers on export performance. The question only applies to current exporters and non-exporters will not expect to reply to this question. The answers will dictate the severity of export barriers in hindering performance of firms in the context of internationalisation.

5.2.5 ARGUMENT V: THE ROLE OF GOVERNMENT IN PROMOTING SMEs INTERNATIONALISATION

Policy towards SME internationalisation (or specifically Exporting) has two strands. One strand is to encourage already exporting firms to export more. A second strand is to instigate non-exporters to begin exporting. A policy challenge relates to the inability and/or reluctance of many SMEs to internationalise (Westhead, 2008). Ahmad & Julian (2006) explained that the general objective in most countries is how to find ways to raise exports, through encouraging already exporting firms to export more or by instigate non-

exporters to begin exporting. To this end Ethiopian government has started different export promotion strategies so as to increase the involvement of Ethiopian firms in global arena.

Past studies in recent years identified that, developing countries account for almost 22 percent of world manufacturing. In the 1990s the average annual growth of export of manufactured products in developing countries exceeded that of industrial countries. However, most manufacturing firms in developing countries possess limited resources and need support when they initiate export activities (Tesfom & Lutz, 2008).

To this end, in Ethiopia, international trade and integration with the world economy has become one of the primary strategies for continued domestic economic growth in the recent years. And within the country's effort to catch up with the requirements of globalization and openness to external markets, there has been a clear effort by the government to increase industrial export to non-traditional markets and enhance the competitiveness of national industries. However, SMEs in Ethiopia are not still competitive in terms of participation and expansion in international activities. The researcher argued that, SMEs internationalisation support must be in line with firms' internationalisation stages, commitment levels and international orientation.

Accordingly, export promotion efforts must be considered at three levels of SMEs development: pre-export phase; during export and post export support schemes. The existence or non-existence of such categorised support must be investigated to further strengthen policy formulation for SMEs internationalisation. SMEs can get access to appropriate international market information which creates strong international awareness that is an important driver for SMEs to accelerate their internationalisation process (Zucchella, *et al.*, 2007). The role of government at this juncture is indisputable.

Pursuant to different existing literatures, policy makers need to address the following questions, among others: existence of appropriate support measures

to address the specific set of top barriers that affect SMEs? Awareness of target SMEs about existence of different support schemes? How well does the current support provision compared with international best practice? How responsive is this support provision to any observed sub-national or sectoral aspects of the perceived barriers? What do export promoting institutions know regarding target users' perceptions of their support provision? What about non-users' perceptions? What actions are needed to improve awareness and perceived usefulness of Government support programs for SME internationalisation?. This reasoning and argument leads us to ask the following research question:

RQ5: What government support programs are there to promote SMEs internationalisation in Ethiopia?

Even though scholars do not agree on the role of government in promoting export, government is in a unique position to significantly ease the way for exports. Government also has a vested interest in export growth. The answer to this question will indicate what SME's perceive government can do to promote exports. Accordingly tailored program suggestions will be forwarded to policy makers at the end of this study.

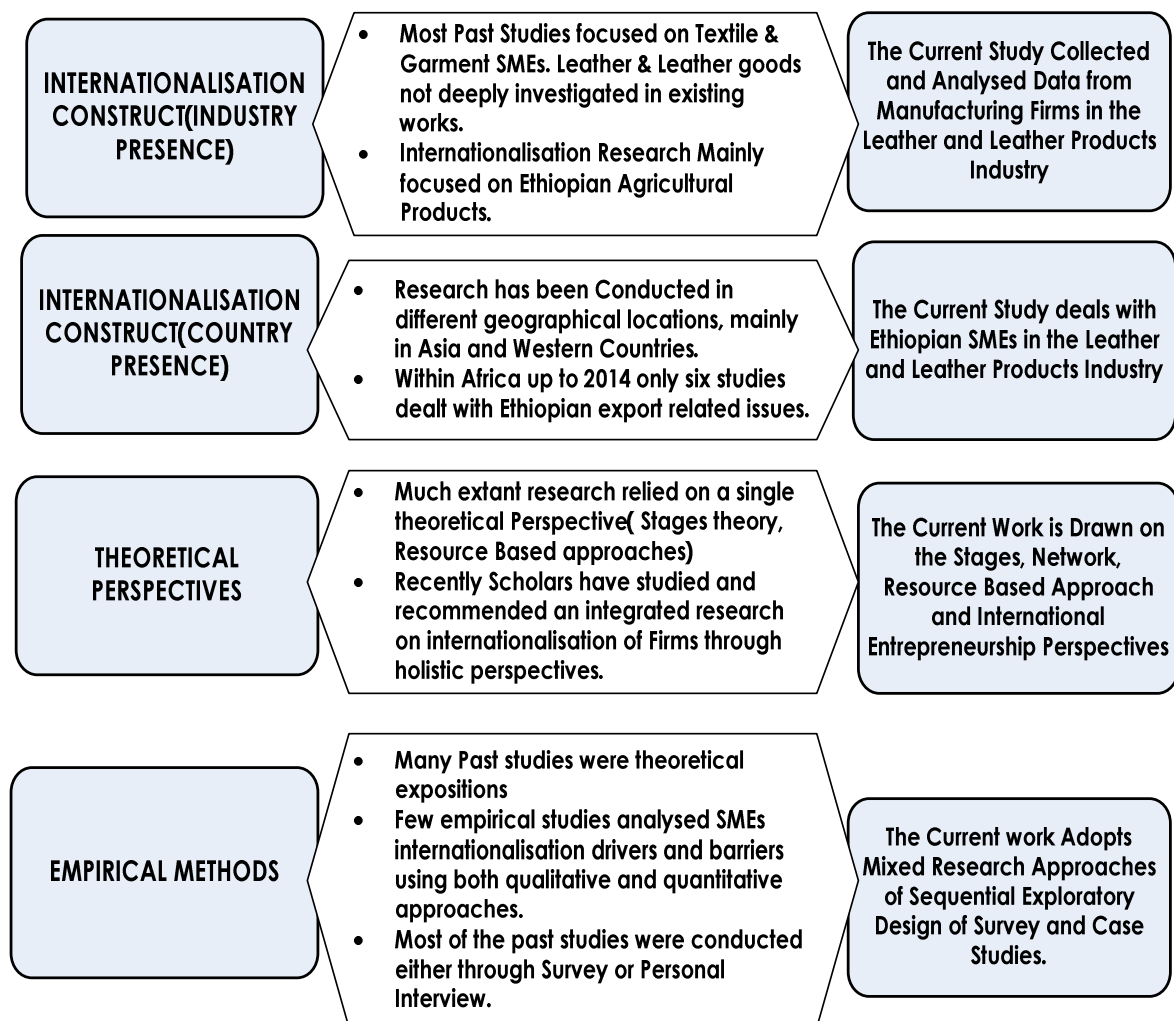
As evidenced by the above major arguments and research questions and notwithstanding the relevance of the topic in international business research, some knowledge gaps and arguments are there especially in the area of applying internationalisation theories in developing economies. As mentioned in the introduction chapter, the current study sets out to advance the knowledge on SMEs internationalisation by exploring the factors motivating and hindering the involvement of manufacturing firms in export trade and how export performance is constrained by internal and external export barriers.

This study used theoretical syntheses of international entrepreneurship, network approach, resource based and stages approaches in explaining internationalisation of SMES. Based on these theoretical perspectives different internal and external motivating and hindering factors were identified as important factors in studying firm internationalisation in view of resource poor

small and medium-sized enterprises in developing economies. All these factors are important for the firm's development and are established predictors of SMEs success in global context. An important note to make is that these factors are not isolated phenomenon but are very much interconnected.

In order to understand how different factors affect SMEs involvement in international trade, different guiding hypotheses were derived from research questions and further explained and operationalised in line with literatures and past empirical works. To further demarcate a line of departure for the current study Figure 5.1 introduces and links the identified literature gaps to the research questions and hypotheses of this thesis.

Figure 5.1: Integration of literature gaps with research Questions and hypotheses



Source: Author's own compilation from literature review (2015)

To show how the variables of interest are related a conceptual model has been developed and the following section presents the conceptual model of the study.

5.3 CONCEPTUAL MODEL OF THE STUDY

The conceptual model for the current study is presented in this section, along with the development of research hypotheses. The study conceptual model evaluates how the following groups of variables affect SMEs' decision to involve or not in internationalisation and how export barriers influence export performance (See Figure 5.2):

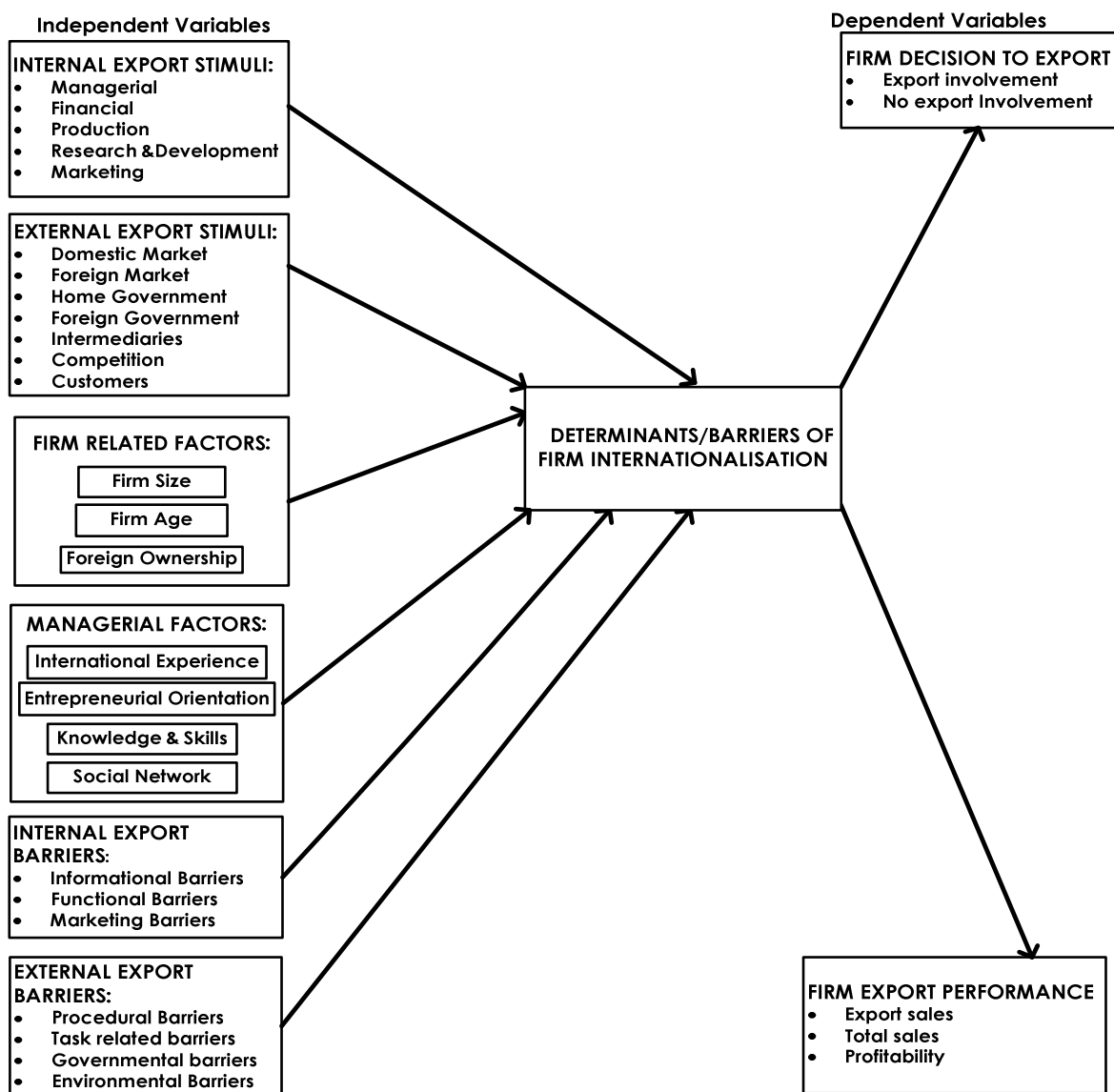
- 1 Internal exporting stimuli;
- 2 External exporting stimuli;
3. Firm Related Factors;
- 3 Managerial Factors;
4. Internal Exporting Barriers;
5. External exporting Barriers;
6. Exporting performance.

Drawing on the literature reviewed in the earlier chapters, a diagram of the proposed conceptual model for this study is shown in Figure 5.2. The diagram provides a rationale for the results expected to flow from internal and external stimuli, managerial and firm related factors, internal and external barriers and how firm performance is ultimately influenced by different internal and external export barriers. A review of the internationalisation, export behaviour and performance literature suggests that SMEs internationalisation decision is affected by both internal and external motivating and hindering factors. Intern firm export performance is likely to be highly correlated with internal and external export barriers. The relational connections of these variables with export performance are examined collectively and simultaneously, rather than on a bivariate basis.

This conceptual framework is a continuation of the theoretical framework presented in chapter 3. Theoretical Framework Informing This Current Study (see

Fig 3.8: pp, 128) conceptualises the theoretical positioning of the current study in relation to previous works. The conceptual model shown in Figure 5.2 presents relationships among constructs of interest in this study. The model guided the overall phases of the study. It guides about the major theories to be referred, how data gathering tools were developed, how the empirical data were gathered, analysed and interpreted. In the end it helped the researcher to compare empirical findings against the theoretical background. Theoretical contribution of the current study is forwarded referring to these frameworks.

Figure 5.2: The Conceptual Model Adopted for this Study



Source: Authors' own Construction from literature review (2015)

The above conceptual model is drawn from the literature review and is relevant for seeking in-depth knowledge about how Ethiopian manufacturing SMEs in Leather and Leather products industry internationalise and for understanding what drives and hinders their involvement in international activities. All the associations between internal and external influencing factors and SMEs internationalisation decision assumed by the conceptual model are further discussed and justified in the section deals with hypotheses formulation.

5.4 THEORETICAL SYNTHESIS AND HYPOTHESES FORMULATION

This section presents the hypotheses that guide the empirical and analytical phases of the current study. The hypotheses are formulated from existing literatures and past empirical works in the field of international business, international entrepreneurship and strategic management. In formulating these hypotheses the aim of the researcher was twofold on one side to investigate whether exporting and non-exporting SMEs are different in their perception towards internal and external internationalisation motives and barriers. On the other hand attention was given to examine how different explanatory variables affect the dependent variable in this case SMEs propensity to export. More explanations as to how each group of these hypotheses to be statistically tested will be presented in chapter under methodology.

5.4.1 HYPOTHESES WITH REGARD TO INTERNAL EXPORTING STIMULI

After reviewing 32 empirical studies from 1974-2005, Leonidou, *et al.* (2007) offered a clearer and more detailed classification for both internal and external export stimuli. Internal factors are intrinsic to the firm whereas external factors are exogenous. According to their view, internal motivators include motivators in five main functional areas including human resources, financial, research and development, production and marketing. External motivators include factors associated with domestic market, foreign market, home government, foreign government, intermediaries, competition, and customers.

Other researchers divided these stimuli into reactive and proactive drivers. Firms' unique capabilities are considered as proactive stimuli while reactive stimuli are resulted from the influence of the environment such as domestic or foreign market on the firm. Both internal and external motivators can include not only reactive but also proactive factors. Based on this concern, Albaum, *et al.* (2004) suggested a more comprehensive classification for export stimulation. In their views, motivational factors can be grouped into four main categories including internal-proactive, internal-reactive, external-proactive and external-reactive. Internal-proactive factors are defined as factors related to firms' unique internal competences such as special managerial interest/urge, utilisation of special managerial talent/skills/time, management trips overseas, potential for extra sales/profit/growth from exporting, etc.(Leonidou, *et al.*, 2007). Internal-reactive factors result from firms' response to pressures imposed by factors in their internal environment such as stagnation/decline in domestic sales/profits, accumulation of unsold inventory/overproduction, availability of unutilised production capacity, and smoothing production of a seasonal product (*ibid.*). It was with these reasoning that the following hypotheses are formulated:

Ho₁:*Internal export stimuli as measured by managerial, financial, production, research and development and marketing related factors do not positively associated with the likelihood of the internationalisation of SMEs in Ethiopia.*

5.4.2 HYPOTHESES WITH REGARD TO EXTERNAL EXPORTING STIMULI

External-proactive factors mention factors associated with firms' ability to exploit market opportunities such as the possibility of reducing the power of domestic customers, exclusive information on foreign markets, identification of better opportunities abroad, government export assistance/incentives, gaining foreign expertise to improve domestic competitiveness and patriotic duty of local firms (Leonidou, *et al.*, 2007). External-reactive factors include firms' respondents to pressure from their external environment such as saturation/shrinkage of the domestic market, need to reduce dependence on

and risk of the domestic market, unfavorable state of the domestic economy, etc. (*ibid.*). Leonidou summarised that exporters' main reasons for involving in exporting activities mostly are external-reactive factors whereas internal-proactive factors demonstrate non-exporters' perspective on export stimulation. Thus, it is logical to hypothesise that:

Ho₂: *External export stimuli as measured by domestic market, foreign market, foreign government, intermediaries, competition and customers related factors do not positively associated with the likelihood of the internationalisation of SMEs in Ethiopia.*

5.4.3 HYPOTHESES WITH REGARD TO FIRM RELATED FACTORS

Firm Size: Internationalisation requires companies to exert additional efforts. Accordingly, the number of employees is a critical factor for SMEs (OECD, 2009). Therefore internationalisation should increase with company size. Firms should be large enough in order to be capable of competing in the global market. According to the increasing competition and improvements in communication networks, larger firms have better advantages in the international market. The relationship between size and internationalisation cannot be generalised since it depends on export strategies. Larger firms are more likely to adapt in contrast with smaller firms who have restricted resources.

The above lines of argument is in line with the propositions of resource-based view mentioned in the theoretical part of this study, size of the company might be a factor which determines the decision to be active on the international market. Empirical evidence on the impact of firm size on SME's international involvement has been mixed. "Whether measured by employee number, sales, ownership of capital equipment, financial capability or a combination of criteria" (Carter, *et al.*, 2006). Most of the literature is supporting the view that larger firms have a higher likelihood to internationalise than smaller firms. Medium-sized enterprises are more involved in international activities than small and micro enterprises.

Firm size is one of the most researched variables. However, there is little agreement on its influence on export performance. Some researchers found a positive relationship between firm size and export performance (Baldauf, *et al.*, 2000; Eusebio, *et al.*, 2007), other found no relation (Saixing, *et al.*, 2009). There are different reasons for such a contradiction in the results. First, there is no general agreement on the definition of size. Some have used number of employees and some have used sales volume. The second reason for the contradiction in firm size studies is that within the same measure there is no standard definition for size. Olivares, *et al.* (2007), found out positive relationship between firm size and firm international behaviour. Small firms perceive more problems related to the exportation and avoid taking risk as they have limited financial assets. They are more concerned by procedural information such as those related to the security, insurance and transportation. Based on these arguments, the following hypothesis is proposed:

Ho₃: *There is no significant association between firm size as measured by number of employees and the likelihood of its internationalisation.*

Firm Age: Age of firm is generally an indicator of learning throughout the time and since engaging in export activities takes a long time, firm age is a very important factor. Some researchers have considered a relationship between firm's age and the export performance. They believe that firms in early stages can have better performance if they are more adaptive. Besides, the more experienced a company is, the more effective it uses its resources as it can exploit learning effects. Moreover, Leonidou (2004) states that young firms are more sensitive to export barriers.

A firm is expected to get knowledge of internationalisation for overseas activities. A learning process is about recognising new market systems and consumer cultures. It of course requires a period of time for organisations to obtain certain experience and ability of international market. If firm age is defined as a determinant for experience of internationalisation, it could be stated that firms with certain experience of internationalisation are more likely

to realise changes in external environment as opportunities which take advantage or threats of which require precaution. Andersson, *et al.* (2004) have found that firm age is an important factor to take into account while studying the dimension of small firms' internationalisation activities although they did not find any relationship between firm age and export status. Hence, the age of firm is required to put following hypothesis into action:

Ho4: *There is no significant association between firm age and the likelihood of its internationalisation*

Ownership structure: As far as ownership structure is concerned, the two focal points of research have been the analysis of family-owned and externally-owned businesses. The current study focus on ownership in view of whether the firm is owned by Ethiopians or Foreign citizens. Family ownership has been found to have a significant effect on the performance and the degree of internationalisation of the firms, but there is no agreement on the direction of the effect.

External ownership, and foreign ownership as a special case, is positively correlated with the internationalisation of the firm. George, *et al.* (2005) claimed that externally-owned firms can make better decisions in strategic issues (like internationalisation). Utilising panel data for the 102 largest German manufacturing firms, Oesterle, *et al.* (2013) conclude that the relationship between the concentration of ownership and the degree of internationalisation is non-linear, U shaped. This means that the stake of the largest external owner influences the internationalisation strategy of the firm. Using a data set of 434 companies with foreign investment located in Hungary, Poland, Slovakia, Slovenia and Estonia, Filatotchev, *et al.* (2008) show that foreign investor ownership is positively associated with export intensity. Accordingly, the next hypothesis was derived from the above argument:

Ho5: *There is no significant association between foreign ownership of firm and the likelihood of its internationalisation.*

5.4.4 HYPOTHESES WITH REGARD TO MANAGERIAL FACTORS

Manager's international experience: International experience is a source of competitive advantage since it leads to designing appropriate strategies. When a firm has more international experience, there is more likelihood of not just using standardisation for gaining worthy results. A firm with international experience distinguishes environmental differences, selects the most attractive market and is more probable to adapt marketing strategies. Evidence shows that the management's international business experience and training is an advantage that has a significant relationship with price adaptation and impacts performance. Sapienza, *et al.* (2006) in their theoretical work also suggested that managerial experience with internationalisation would moderate the relationship between internationalisation and firms' growth by reinforcing a positive influence of internationalisation on firms' growth.

The entrepreneur's exposure to foreign cultures through living, working, or traveling abroad should increase their international orientation to foreign cultures and countries' (Ruzzier, *et al.*, 2007). The contextual knowledge that a firm acquires through its entrepreneurial managers in the targeted or anticipated host country is termed by Johnson & Vahlne (2009) as international experience, and is said to be the immune effect on the choice of particular strategy and mode (Ruzzier, *et al.*, 2007). 'The international experience of managers and entrepreneurs is also an inimitable and irreplaceable resource for their firms' (ibid). International experience is a conduit through which the negative effects of an alien environment flow and become mitigated and the 'experienced actors can do things that novices cannot do or do less well' (Li and Meyer, 2009).

The international business experience of managers has been most frequently used as an explanation for SME internationalisation. The managers' previous experience is a key factor in securing the international engagement of rapidly internationalising firms. Specifically, it plays a central role in identifying new opportunities, building networks (Mudambi and Zahra, 2007), and reducing risks

(Acedo and Jones, 2007), all of which facilitate small firm internationalisation activities. The underlying assumption is that managers in international entrepreneurial firms who had exposure to the international environment may be more likely to create effective linkages which expedite their internationalisation efforts and contribute to enhancing a firm-specific capacity for superior international performance than managers lacking in international business experience. Therefore it is proposed that:

Ho₆: *There is no significant association between international experience of Managers and the likelihood of firm internationalisation.*

International Entrepreneurial Orientation of top managers: International orientation involves the vision, perception and preparation of key personnel towards internationalisation. The process of internationalisation can only proceed if these key players possess an international orientation. This is influenced by their educational background, existing formal and informal international contacts with overseas visitors, language skills, and knowledge of foreign competitors and experience of foreign cultures.

The most important indicator for an international orientation is having key personnel with global mindsets or vision (Delaney, 2004). Possessing a global mindset “allows individual executives, teams, and entire organisations to understand a business or market without regard to country boundaries” Friedman (2006) advocates that the key personnel need to visualise out of the “normal box” with “passion and curiosity” because this positions them better through self education and self-motivation in relation to their competitors. Global mindsets can be developed by being adaptable to changes (e.g. new environments & new experiences), willing to learn different cultures and take risks, having strong personality traits (e.g. innovate, energetic, patience, high self esteemed, passion, enthusiasm, playfulness, inspirational and curiosity), willing to travel, valuing the relationship more than the business deal, possessing management and leadership skills, and being courageous. Unfortunately, so far

there is little evidence to link global mindsets with SME internationalisation (Acedo & Jones, 2007).

Entrepreneurial orientation has emerged as an important concept in the internationalisation and entrepreneurship literature over the past two decades (Ibeh and Young, 2005; Huang, *et al.*, 2010). Entrepreneurial orientation involves how a firm aligns its process, practices and managerial activities towards new markets (Lumpkin & Dess, 2005). This is relevant to the international entrepreneurship (IE) and resource-based views. It involves strategic intentions and top management's actions, such as propensity to take risk, levels of innovation and ability to recognise opportunities. Therefore, without a farsighted management that is genuinely interested in pursuing internationalisation, the various constraints and challenges faced by SMEs would imply low levels of internationalisation. Hence, it has been proposed that:

Ho7: *There is no significant association between Manager's international orientation and the likelihood of firm internationalisation.*

Ho8: *There is no significant association between manager's knowledge and skills and the likelihood of firm internationalisation.*

Ho9: *There is no significant association between manager's social network and the likelihood of firm internationalisation.*

5.4.5 HYPOTHESES WITH REGARD TO INTERNAL EXPORTING BARRIERS

Export barriers are understood as the internal and external constraints that dissuade firms from initiating and/or expanding export activities (Leonidou, 2004). Export barriers are found in many forms and are subject to different categorisation. However, most barriers fall under the following dimensions: lack of knowledge and information, lack of strategic resources to undertake export operations, and exogenous barriers (Arteaga and Fernandez, 2010).

Informational barriers relate to problems in identifying, selecting, and contacting international markets because of information inefficiencies. Examples of these barriers are locating and analysing foreign markets, finding

international market data, identifying foreign business opportunities, and contacting customers abroad. These barriers are considered important for both exporters and non-exporters, as they are critical in the export management decisions (*ibid.*).

Functional barriers refer to inefficiencies in functions within the firm, such as human resources, production, and finance. These barriers generally have a moderate impact on export behaviour. Examples are limited management time to deal with export, inadequate export personnel and shortage of working capital to finance export (Leonidou, *et al.*, 2007).

Marketing barriers include the firm's product, pricing, distribution, logistics, and promotion activities abroad. For many exporting firms, this is the largest problem area. Firms may need to develop new products or adapt existing products to suit customer preferences in foreign markets. However, such innovations would reduce possible economies of scale associated with exporting. Another important issue is setting the right price in relation to competition in international markets. Finding the right distribution channel, and reliable foreign partners and representatives, is a major challenge for many exporting SMEs (*ibid.*).

Barriers related to product and price: The lack of mass production capacity of small organisation considered as the major impediments for exporting. A large number of organisations withdraw from exporting because the inability of their production capacity to meet the demand of export business. It is very important for organisation to adapt with new environment by developing new products to face the internal and external challenges of the international market. SMEs failure to choose the right product and new product development will suffer decrease in the export performance and profitability in the international market. The ability to fast product development provides support to develop a successful export marketing strategies (Lim, *et al.*, 2006).

Besides that, the product design and packaging play very important role to attract customers during the export marketing process. It is difficult for SMEs to

grow in the international market if they are not able to package and design their products according to the need of the foreign markets (Rundh, 2009). The quality of products plays an important role for the success of the international business. Since globalisation has open the doors to consumers to buy product from different countries with a very competitive price. It is very important for SMEs to maintain the quality and standard of product to compete in the global market place. Products with difficulties and poor qualities face problem to compete in the international market (*ibid.*).

The success of the SMEs depends on its capability of planning a competitive pricing strategy for products for the export market. A well planned pricing strategy help SMEs to gain a sustainable competitive situation in overseas markets (Doole, *et al.*, 2006). The pricing of goods is important tool of pricing strategy for exporting in the foreign market. The pricing of exporting should be done by a systematic process to compete in the global business environment. SMEs face competition and barriers in terms of pricing during their export in the foreign markets. Delivery, logistics and advertising barriers: SMEs operating in the international market encounter problems in finding proper distribution channel. The lack of marketing and promotional activities in the overseas market creates export related problems for SMEs. A large number of SMEs in the developing countries do not succeed to establish a proper marketing channel in the international market (Tesfom & Lutz, 2006). Furthermore, the structure of the foreign supply chain management play very important role for SMEs to expand in the foreign markets. The value chain related problems has strong effect to the export performance of the SMEs (Anderson, 2009).

Export knowledge and informational barriers are associated with unfamiliarity with important aspects of export activities and export market environments. The barriers are found in several dimensions. They can be a result of difficulties in identifying export opportunities (Pinho & Martins, 2010), a lack of understanding of foreign culture and business practices, or the lack of knowledge on the availability of export support programs (*ibid.*). Others are in the form of limited

information to locate and analyse markets and inability to communicate with potential overseas customers (OECD, 2009).

A number of researchers (Rutihinda, 2008; Pinho and Martins, 2010; Ortiz and Ortiz, 2010) included limited or insufficient information on foreign markets in their study of barriers. Some researchers tested the difficulty to gather information that is accurate on the foreign market (Craig and Julian, 2005) while information on products and services is highlighted by Ortiz and Ortiz (2010). Export knowledge and information barriers are particularly salient in Ethiopia due to two main reasons. First, the market for information in Ethiopia is underdeveloped because the institutions providing export market information or facilitating its acquisition are inadequate and/or inefficient. Second, the majority of firms in Ethiopia are small to medium (CSA, 2012). Hence, they lack other resources required to invest in knowledge and information generation activities such as research and development (R & D) and, information and communication technologies. Based on this evidence it is reasonable to suggest that internal information and knowledge related barriers, financial barriers, managerial and marketing barriers will negatively affect export behavior of Ethiopian firms. This leads to the formulation of the following hypothesis:

***Ho₁₀:** Internal export barriers as measured by informational, functional and marketing related factors do not negatively associated with the likelihood of SMEs internationalisation in Ethiopia.*

5.4.6 HYPOTHESES WITH REGARD TO EXTERNAL EXPORTING BARRIERS

As discussed in previous chapter of this study, external barriers originate from the home and host country environment the firm operates in (Leonidou, 2004). Different categories of external barriers are: procedural barriers, governmental barriers task barriers and environmental barriers.

Procedural barriers relate to operating aspects of transactions with foreign customers. These barriers are caused by unfamiliarity with techniques and

procedures, communication failures, and slow collection of payments and often have a high impact on export behavior. Government barriers are twofold. On the one hand, they include limited support and incentives for current and potential exporters. Another form of governmental barriers is restrictive regulatory frameworks and protectionist measures such as tariff and non-tariff barriers. The export procedure and the regulation for exporting differ from country to country. SMEs operating in the overseas market need to spend a lot of time to prepare export documents required by the host country of exporting (Tesfom & Lutz 2006).

SMEs operating in the international market face barriers within the business environment of the host country. The barriers related to business environment are mostly associated with the economical, political, legal, and socio-cultural environment of the host country. The overall economic condition of the host country is important for the growth of the SMEs. The uncertainty of the overseas markets caused by different micro-economic indicator has strong effect for the growth of SMEs. Moreover, the foreign exchange rate and unfamiliar business practices create obstacles for the growth of SMEs (Sirpal, 2009).

The barriers related with social and cultural differences have great impact on the export performance of the SMEs. The differences in values, beliefs, norms, attitudes ethnicity, religion and language have significant effect on the exporting activities of the SMEs (OECD, 2012). The importance of culture is very important in doing business globally. The cultural change due to globalisation is creating new value towards international business. The practice of intercultural management is highly required by the SMEs operating in the international market (Kanungo, 2006). The cultural differences have great impact on new product development in the international environment. It is highly recommended to monitor the cultural differences carefully while planning marketing activities in the overseas market (*ibid.*).

The tariff and non-tariff barriers are implemented by the government in the foreign countries to control exporting by overseas companies. The quotas and

embargoes are imposed by the host country of exporting to control the amount and quantity of goods from the country of exporting. SMEs operating in the overseas market encounter barriers related to unreasonable quotas and embargoes (OECD, 2012).

Internal barriers are easier to handle and manage but external factors are not convenient to tackle (Leonidou, 2004). The troubles originating from external factors such as export market competition, image of exporting country and policies made by both host and home countries are referred to as external barriers. The external factors consist of trade/business networks, government, markets, geographical location and cultural differences. Access to and engagement with outside networks of contacts, trade fairs and foreign businesses represent, logically, a significant impetus to exporting potential and capacity (Su and Adams, 2010). Kneller and Pisu referred to changes in consumers' preferences, the presence of middlemen and agent representatives, import tariffs, problems finding a trustworthy distributor in the target country, exchange rate fluctuations, risk of losing money in the foreign market, and quality and safety standards as potential export barriers to firms (Kneller and Pisu, 2011).

In addition, SMEs operating in the international market face problem in the home country as well as in the host country due to different procedure and regulations set by the both governments. The lack of support from home government and organisation is a major barrier for the growth of the SMEs. The different rules and regulations set by the home government and restriction on exporting product related to national or international interest slow down the performance of the export related SMEs (OECD, 2012).

Restriction on foreign ownership and extra tax rate has strong effect the performance of the SMEs operating in overseas market. Moreover, the problem related with international travel restrictions, high tax rate for foreign owned companies, financial discrimination policies, and unfavorable law and bureaucracy in the host government are major barriers faced by the SMEs in

the international market (OECD, 2012). The limitations and lack of home government support and unfavorable export policy hindered the growth of SMEs in the international market (Karelakis, *et al.*, 2008).

Goitom and Clemens (2006) have suggested that, a coordinated collaboration among the government, private sector, business society, and the promotional institutions sponsored by the government are important in order to understand the exporting problems and make effective assistance to the export. Therefore, in order to minimise the problems related to export, the developing countries' administrations need to acquire the skills of their co-ordinates in developed countries. It is with these lines of argument that the following hypothesis is proposed:

Ho₁₁: *External export barriers as measured by procedural, task, governmental and environmental related factors do not negatively associate with the likelihood of SMEs internationalisation in Ethiopia.*

5.4.7 HYPOTHESES WITH REGARD TO THE IMPACT OF EXPORT BARRIERS ON FIRM PERFORMANCE

According to Tesfom & Lutz (2008) one of the major problems in comparing empirical studies of exporting is that different performance measures have been used by different researchers. Past researchers used either objective or subjective measures for export performance (*ibid*). Some other researchers have used multidimensional measures, combining two or more export performance measures (Belso, 2006; Altintas, *et al.*, 2007).

Reviewed literatures discussed so far suggest that SMEs face many barriers to export to international markets. These barriers have been categorised in different ways; however, for the purposes of the current study, the classification of by Lendou (2004 and 2007) was adopted to deal with export barriers. These barriers are major concerns for firms, especially SMEs, because of the negative effects that they have on these firms' performance in the international environment. In summary, the final part of the study conceptual model

indicates that internationalisation barriers are the main cause of SMEs' poor performance in international business.

Thus, the argument is that the greater the level of certain perceived export barriers, the less likely good performance will be. Thus, it is expected that perceived export barriers are related to export performance and the following hypothesis is proposed:

Ho₁₂: *There is no significant relationship between the extent of internal and external export barriers and the level of SMEs internationalisation performance in Ethiopia.*

Ho₁₃: *Internationalisation behaviour of Ethiopian SMEs in manufacturing industries cannot be explained by internal and external export stimuli factors and barriers factors.*

So far the discussions devoted to explain how the research questions are translated into hypotheses. The next section presents how the hypotheses were operationalised and subsequently measured. It identifies the background to Operationalisation of concepts, main research concepts, dimensions of each concept, indicators for each dimension, and selected models for measuring concepts. The theoretical context for concepts is discussed in this chapter but the methodological approach for testing hypothesis will be thoroughly explained in methodology chapter.

5.5 BACKGROUND TO OPERATIONALISATION OF CONCEPTS IN HYPOTHESES

In this study the problem of the study is: why Ethiopian SMEs in leather and leather products industry join international market and how the process of internationalisation is influenced by export barriers? The study seeks to assess and analyse Managerial/owner perception towards different motivating and impeding factors of firm internationalisation. In addition attention was also given to examine how export performance is affected by different barriers. In the end one hypothesis was formulated to understand the extent to which existing

exporters and non-exporters perceive government export promotion programmes. For the above problem and purpose, the study seeks to answer the following specific research questions:

- *What driving forces motivate the internationalisation process of SMEs in manufacturing industries in Ethiopia?*
- *What patterns and strategies of internationalisation do Ethiopian manufacturing SMEs follow?*
- *What are the factors that hinder internationalisation process of SMEs in manufacturing industries in Ethiopia?*
- *What is the impact of internal and external export barriers on internationalisation performance of manufacturing SMEs in Ethiopia?*
- *What government support programs are there to promote internationalisation of Manufacturing SMEs in Ethiopia?*

As justified by extant theoretical and empirical literatures reviewed in chapter three and problem discussion chapter four, to answer the research questions the following are the hypotheses for the study:

Ho₁: Internal export stimuli as measured by managerial, financial, production, research and development and marketing related factors are not positively associated with the likelihood of the internationalisation of SMEs in Ethiopia.

Ho₂: External export stimuli as measured by domestic market, foreign market, foreign government, intermediaries, competition and customers related factors are not positively associated with the likelihood of the internationalisation of SMEs in Ethiopia.

Ho₃: There is no significant association between firm size as measured by number of employees and the likelihood of its internationalisation.

Ho₄: There is no significant association between firm age and the likelihood of its internationalisation

Ho₅: There is no significant association between foreign ownership of firm and the likelihood of its internationalisation.

Ho₆: There is no significant association between international experience of Managers and the likelihood of firm internationalisation.

Ho₇: There is no significant association between Manager's international orientation and the likelihood of firm internationalisation.

Ho₈: There is no significant association between manager's knowledge and skills and the likelihood of firm internationalisation.

Ho₉: There is no significant association between manager's social network and the likelihood of firm internationalisation.

Ho₁₀: Internal export barriers as measured by informational, functional and marketing related factors are not negatively associated with the likelihood of SMEs internationalisation in Ethiopia.

Ho₁₁: External export barriers as measured by procedural, task, governmental and environmental related factors are not negatively associate with the likelihood of SMEs internationalisation in Ethiopia.

Ho₁₂: There is no significant relationship between the extent of internal and external export barriers and the level of SMEs internationalisation performance in Ethiopia.

Ho₁₃: Internationalisation behaviour of Ethiopian SMEs in manufacturing industries cannot be explained by internal and external export motives and barriers.

For the above problem and purpose, the following are the specific objectives for this study:

- To explore determinant factors that motivates business internationalisation among Ethiopian SMEs in manufacturing industry.
- To identify the pattern and mode of entry followed by Ethiopian SME's in manufacturing industry to expand their business in foreign markets.
- To determine impediment factors that hinders internationalisation of manufacturing SMEs in Ethiopia.

- To examine the impact of internationalisation barriers on SMEs internationalisation performance.
- To determine the relationship between some critical factor and exporting status of Ethiopian manufacturing SMEs.
- To identify possible differences from SMEs managers' perspectives towards Government export incentive packages, ranging from non-exporter to exporter.
- To recommend an integrated model that explains SMEs internationalisation behaviour for the manufacturing sector in Ethiopia.
- To identify areas of future research in the field of firm internationalisation with special emphasis on SMEs.

The following discussion explains how the research constructs and concepts in the hypotheses were operationalised. According to many authors (Babbie, 2005; Trochim, 2006; Creswell, 2009) there are a number of steps involved in operationalisation of concepts in a hypothesis. Operationalisation in the current study involves the following steps:

- Identification of and clear definition of the concepts in hypothesis
- Definition of various dimensions to the concepts
- Specification of variables for each dimension of concepts
- Specification of components/indicators of each variable
- Specification of measurement procedure for each variable
- Indication of method of proving or disproving the hypothesis

5.6 OPERATIONALISATION OF THEORETICAL CONSTRUCTS

Constructs are operationalised by selecting measurement scale items and scale types. In survey research, operationalising a construct often involves a series of scale items in a common format such as a Likert scale or a semantic differential scale (Hair, *et al.*, 2006). Operationalisation is of the most critical

aspects of empirically based research. Management of the operationalisation process includes a systematic approach to the translation of abstract theoretical concepts into measurable items that can be used for studying reality. Therefore, operationalisation deserves specific attention when conducting scientific research (Trochim, 2006).

On top of this, it is necessary to devise ways of measuring the constructs developed in the conceptual model. Development of a composite measure for the international SME's internationalisation provides an important contribution to the international business literature (Loxton & Weerawardena, 2006). As outlined in the previous chapter, SMEs internationalisation stimuli and barriers for the purpose of this study comprises internal stimuli, external stimuli, internal barriers and external barriers, firm and managerial related factors. Internal stimuli include managerial characteristics and firm characteristics whereas impediments include financial, informational, marketing and procedural problems.

SMEs decision to internationalisation is a construct of central interest in this study. The researcher aimed to determine which variables motivate the firm to involve and expand its exports and to highlight the variables that hinder and discourage the firm's export involvement and expansion in exporting. This approach is in line with the works of Leonidou, *et al.* (2007).

The preliminary survey of extant literatures leads the researcher to several research questions that are mentioned in chapter one of this study. To maintain logical coherence the questions and hypotheses are repeated in this chapter. The first research question relates to those factors that stimulate internationalisation of Ethiopian SMEs. The second relates to the main variables hindering internationalisation of Ethiopian SMEs. The third research question deals with patterns and entry mode followed by exporting Ethiopian SMEs and explanations will be made from the point of stage, network, Resource-based view and international entrepreneurship approaches. The fourth research question focuses on the impact of internal and external barriers on

performance of currently internationalised SMEs. The fifth research question devotes to examining the role of Government in promoting internationalisation of firms through devising different export promotion support packages.

Operationalisation of conceptual constructs is justified from the fact that, concepts are not observable they have to be 'operationalised' or translated into observable indicators which can be tested. Through operationalisation the researcher is able to set clear instructions on what she/he wishes to observe which then enables the testing of hypotheses and theories through the collection of empirical data (Trochim, 2006; Creswell, 2009). This thesis seeks to redress the basic research problem by investigating determinants and impediments of SMEs internationalisation in the context of Ethiopian manufacturing firms; including the modes and patterns of foreign entry, internationalisation orientation, key drivers influencing the internationalisation process and key internal and external barriers affecting firm internationalisation. The operationalisation variables included in the survey all originally derived from the theoretical discussion of the original and modified SMEs internationalisation models discussed under chapter three.

The definition of internationalisation used in this current study is comprised of that proposed by Leonidou, *et al.* (2007): "the firm's ability to initiate, to develop, or to sustain business operations" outside their local market, plus that proposed by Mathews (2007): "the process of the firm's becoming integrated in international economic activities" (which covers export activities excluding foreign direct investment). In this context, barriers for the national and international expansion of SMEs are those hindering this internationalisation process (Leonidou, *et al.*, 2007). The definition taken for SMEs is the one given by the Ministry of Trade and Industry of Ethiopia (2011). Most theories in the social and behavioral sciences are formulated in terms of hypothetical constructs that cannot be observed or measured directly. Conversely, the measurement of hypothetical constructs is accomplished indirectly through one or several observable indicators, representing the non-observed latent construct, often in

the form of responses to survey items edited so as to optimally represent the construct.

With reference to Figure 5.2, all independent variables and indicators are assessed with survey instrument items rigorously developed based on constructs deduced from the preceding literature review. In this respect, the conceptual model is confirmatory by seeking to verify that the relationships rooted in substantive theory, as well as in experience and practice, are in fact validated by the empirical data collected by the questionnaire. While most of the literature references in previous works refer to internationalisation in the form of export, conceptual and measurement amendments are made to accommodate the research's holistic global mindset construct and to reflect the research's bidirectional and holistic definition of internationalisation.

5.6.1 VARIABLES DESCRIPTION AND MEASUREMENTS

For the purpose of this study the issue here is to outline the descriptions and measurements of variables and based on available data, different variables were created. The variables are to be used for statistical analyses which allow the researcher to elaborate on investigated topic about process of SMEs internationalisation in developing countries and investigate the possible determinants of export. The following discussion focuses on description of the variables of interest in the current study:

a. Dependent variables

Propensity to Export:-The dependent variable used in this study is firm's export behavior operationalised as propensity to internationalise. Export propensity is defined as whether or not a firm exports to foreign markets and export intensity is defined as the level of export sales in total sales (Salomon & Shaver, 2005). Export behaviour has been studied widely using different conceptualisation and measurement. For the purpose of this study, export behaviour is conceptualised simply as involvement of firms in export activities. Different indicators have been used to operationalise export behaviour. Most studies have, however, used either a categorical approach to determine whether or not a firm exports, or

export ratio to determine the level (intensity) of export involvement. Those using the categorical approach primarily seek to develop a profile of factors characterising firms of different export status.

Accordingly, for the purposes of this research, a SMEs firm is considered internationalised when it engage in outward internationalisation through direct and indirect exporting. This definition is justified in the context of the stages of Industrial development in Ethiopia, the other aspects of outward internationalisation such as joint venture, and business development in foreign country is not feasible at SMEs level.

As to measures concern, the dependent variable is dichotomously defined. This variable is coded as 1 if the firm is Exporter, and as if not, that is to say, if the firm is non-exporter. Therefore, to assign each sample firm to one of these two categories, the researcher has attended to firms' own perception of their level of involvement with export activities. In fact, this is the best way to capture the attitude held by a firm with regard to its overseas expansion. Thus, in the current study, firms were asked to indicate if they currently exporting (active exporter) or only serving domestic market (non-exporter).

Internationalisation Performance: - In order to further examine how export performance is being influenced by different barriers, export performance was treated as dependent variable while export barriers were treated as explanatory factors. As discussed in previous chapters, SME face many barriers to export to international markets. These barriers have been categorised in different ways; however, for the purposes of this study, the classification proposed by Leonidou (2004) and Leonidou, *et al.* (2007), is used and the focus of this study is on internal and external barriers. These barriers are major concerns for firms, especially SMEs, because of the negative effects that they have on these firms' performance in the international environment. As shown in Fig 5.2 and suggested by different scholarly works, internationalisation barriers are the main cause of SMEs' poor performance in international business.

With this background, export performance was operationalised using subjective measure of export sales, total sales and profitability. Respondents were asked to indicate their perception of how well their company had performed in achieving each of these objectives. A five-point scale, ranging from “significant decline” (1) to “significant increase” (5), was used. It is considered that the causal link between perceived export barriers and export performance was likely to be that the former gives drop to the latter.

B. Explanatory Variables

Internal and External driving factors: There are many possible driving forces behind a firm's internationalisation process. These factors are generally divided into two categories: internal and external motivating factors. The former group consists of management's knowledge and skill, firm resources and research and development competence. The second group, i.e. external motivating factors, refers to a set of motivators caused by the firm's response to environmental changes. These factors were derived from previous research on motives and barriers of internationalisation. Questions relating to the internal and external motives were included in the survey instrument. The respondents were asked to rank internal and external motives using Likert scale (where 1 – the least important and 5 – the most important motivating factor to start international operation).

Firm Size: A company's size can be measured by sales, ownership of capital equipment, financial capability and also by number of employees. This paper uses information regarding number of employees as a measurement of company size.

As discussed above, there is no universally accepted measure for capturing company size and several indicators have been employed in the literature to measure firm size. The most popular are the number of full-time employees and sales volume. Some researchers have included total assets and domestic market sales. Since the majority of these size measures are likely to be moderately correlated. It was hypothesised in the present study that firm size, measured by

the number of employees, would be significantly associated as an indicator of firm size. Thus, firm size was measured as a continuous variable, by using the total number of full time employees. This indicator is broadly used as a measurement of a firm's size in internationalisation literature. Therefore, to account for the possible effects of firm size, five dummy variables are created for the following size categories: (1) size < 10, (2) size ≥ 10 but < 50, (3) size ≥ 50 but < 100, and (4) size ≥ 100 but < 200 (5) size ≥ 200.

Firm Age: The business strategy approach views a firm's international behaviour as dependent on its resources and capabilities, as well as external conditions. As firm ages, it develops managerial and entrepreneurial competencies and accumulates knowledge and experience about the competitive environment. Thus, firm age should positively affect its involvement in foreign markets. Accordingly in this study, firm age was operationalised as the number of years since start-up measured as a continuous variable. It is captured in the model through three dummy variables: (1) age < 3 years, (2) age ≥ 3 but < 15, and (3) age ≥ 15.

Ownership Structure: The effect of ownership on internationalisation was tested with one variable, foreign ownership. Ownership was measured with three dummy variables: (1) firms owned by Ethiopian citizens, (2) jointly owned firms, (3) foreign owned. It is hypothesised that, the more SMEs are owned and managed by foreign citizens, the more overseas operation the firm will have.

Measuring Managerial experience: The international business experience of managers has been measured using a variety of proxies: years of business experience in export related work (Mudambi and Zahra, 2007); the number of managers with international exposure (Fernhaber, *et al.*, 2008); percentage of managers with international work experience (Nummela, *et al.*, 2004); foreign language ability (Acedo and Jones, 2007; Zucchella, *et al.*, 2007); travelling experience abroad (Acedo and Jones, 2007; Ruzzier, *et al.*, 2007); and international education experience (Nummela, *et al.*, 2004; Ruzzier, *et al.*, 2007). From the previous studies relating to the international business experience of

managers, it is found that there is no definitive proxy for the construct. To overcome this problem, many of these studies employ multiple items to measure the international business experience of managers.

It is likely that frequent travel abroad allows managers to have opportunities to gather international business information, learn about market knowledge and practices and identify business opportunities (Ruzzier, *et al.*, 2007). Foreign language usage and fluency may capture the extent of global business activities (Acedo and Jones, 2007; Zucchella, *et al.*, 2007). However, in capturing the degree of the international business experience of managers, academic experience such as international education is likely to be less helpful than practical experience. That is, this indicator may provide a good pre-condition for firm internationalisation, but be associated indirectly or even hardly with international business experience *per se*. However, in the current study, managerial prior international experience is operationalised in terms of manager's overall experience measured dichotomously as (yes/No). Accordingly, respondents were asked whether they possessed any international experience (resulting from either working abroad and/or from selling to foreignmarkets) and to indicate the number of years of their international experience.

Entrepreneurial orientation (EO): There has been some controversy as to how best to represent and measure the entrepreneurial construct. It was suggested that, the dimensions of an EO co-vary and considered as a multidimensional construct, which characterises firm's entrepreneurial behaviour. Accordingly, each of the five variables which constitute the EO construct, namely autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness, describes only a single dimension of the construct, and cannot be taken alone. Although, Hughes and Morgan (2007) considers EO as consisting of five dimensions, a number of other scholars have settled on measuring EO employing the three core dimensions of innovativeness, proactiveness and risk

taking. They merge these three dimensions in a gestalt construct of EO and then analyse its effect on business performance (Tayauova, 2011).

While the operationalisation of EO as a unidimensional construct has shown high levels of reliability and validity multi-dimensional measures, reflecting each of the subdimensions of EO (Lee and Lim, 2009), reflect the unique contributions that each sub-dimension offers to the entrepreneurial process. Moreover, in addressing the interdependence of the sub-dimensions, proponents of multi-dimensional operationalisations of EO highlight the potential for each sub-dimension to have a differential impact with key outcome variables such as firm performance. Given the plethora of studies within the developed and developing world contexts that have operationalised EO as a multidimensional construct, which consists of the three dimensions of innovativeness, risk taking and proactiveness, with high levels of reliability and validity; this paper adopts this conceptualisation of EO.

Nineteen Likert-Scale statements were used in measuring firms' EO. These operational measures asked respondents' assessment (rating) of their SMEs' EO in relation to internationalisation involvement. Using principal component analyses the items were reduced to three dimensions of innovativeness (i.e. the extent to which they pursue new product ideas for export, consider new export markets, seek new information on exporting); proactiveness (nature of motivations regarding exporting, search for export information, attendance at local/foreign trade fairs); and risk taking (perceptions of exporting risks versus opportunities, relative focus on domestic versus export markets, relative emphasis on current export returns versus long-term marketing objectives). The validity of these operational measures was evaluated using coefficient alpha for the entrepreneurial orientation and its three sub-scales (innovativeness, proactiveness and risk taking).

Perceived Exporting Barriers: In the literature export barriers have been operationalised as export obstacles/ inhibitors, problems or impediments. They all refer to, attitudinal, structural, operational and other constraints that hinder

the firms' ability to initiate, develop, or sustain international operations (Leonidou, 2007). The researcher used perceptual measures of export barriers rather than objective measures. The barrier items used in the current study were identified following a review of export management literature. Specifically, the barriers identified in the following studies: Tesfom and Luz (2006), Leonidou (2004), and Leonidou *et al.*, (2007), Julian and Ahmed (2005), OECD (2009) and, Pinho and Martins (2010) were considered as suitable for the current study's purpose.

In this study the barriers to the internationalisation were operationalised using Leonidou *et al.*, (2007) recollection of barriers hampering the international development of SMEs. The definition for these barriers is similar to that proposed by Leonidou, *et al.*, (2007). Leonidou found two main types of barriers: (i) internal barriers are "associated with organisational resources/capabilities and company approach to export business" and can be broken down into Informational, Functional, and Marketing; on the other hand, (ii) external barriers are those "stemming from the home and host environment within which the firm operates" and can be classified as Procedural, Governmental, Task, and Environmental. The export barrier will be measured primarily based on (Leonidou, *et al.*, (2007) and (Tefom and Luz, 2008). In the questionnaire, the respondent were asked to indicate to what extent he/she considered various export barriers to be obstacles to the initiation or expansion of his/her firm's export activity.

Forty seven export barrier items were selected for the study. As it has been advocated that one issue may be a frequent problem but not too important, while another may be of importance but rarely a problem, each barrier was measured for its obstructing impact on ongoing export operations on a five point scale, ranging from not obstacle at all (1) major obstacle (5). The classification proposed by Leonidou, *et al.*, (2007) is of particular interest as it systematises the major internal and external export problems that can influence SMEs internationalisation patterns and levels of involvement. This typology

provides a comprehensive basis for understanding internationalisation barriers, and is useful for the formulation of suitable internationalisation strategies and national export assistance programs.

The samples of companies were asked to what extent various internal factors act as a barrier to developing their exports. 31 internal export barriers were measured on a five-point scale, ranging from not an obstacle at all (1) to major obstacle (5). On the same token, respondents were asked to rate 33 external barriers measured on a 1 to 5 rating scale with 1 representing "not obstacle at all" and 5 representing "major obstacle". The barrier items were further subjected to a factor analytical technique in order to identify major barrier factors that could serve as explanatory variables in the regression analysis. The factor analysis result and each factor label will be presented in the next chapter in detail.

Perceived Government support: In today's marketplace, there are numerous products and services available to fulfill the needs of individuals and businesses. A firm's ability to identify and leverage the features of its product or service and demonstrate how it is different from the competition will provide them with market staying power. This is particularly important for small manufacturing companies who may be unable to leverage on economies of scale to lower costs and compete through prices.

This is why companies value government assistance in either proactively helping them distinguish themselves from foreign competition or providing incentives to help them do so. SMEs need different levels of customised support programs at different stages of their involvement in international operation. As previously stated, the identification of SMEs need gaps is important as these are areas for improvements where SMEs have attached much higher importance than their government counterparts. To understand their perceived support needs, respondents were asked to rate 18 items that reflect government export promotion packages at different stages of the firm involvement in international

trade. Accordingly, respondents were asked to rate each item on 5 point Likert Scale ranging from least important(1) to very important(5).

5.7 CHAPTER SUMMARY

This chapter discussed a conceptual model of the interactions between key variables affecting SMEs decision to export or not to export. The chapter started with presentation of the study's major arguments and showed how each research questions derived from these arguments in light of existing empirical works. Operationalisation of major constructs and identification of measurement variables in the context of this current study leads to the development of key hypotheses, which are established through extensive literature review. Next, the first group of hypotheses Ho1 and Ho2 were designed to analyse the motivating factors for SMEs internationalisation. The second group of hypotheses Ho3, Ho4, and Ho5 are then built to specifically assess firm related factors whereas; Ho6, Ho7, Ho8 and Ho9 focus on managerial factors. Hypotheses Ho10 and Ho11 intended to examine the internal and external internationalisation barriers in view of managerial perception towards these factors. The last group of hypotheses deals with the impact of barriers on performance (Ho12) and the one explaining overall relationship between different factors and SMEs internationalisation behaviour (Ho13).

Finally the chapter presented how the constructs are reformulated in measurable form of operationalisation. Because of the need to translate the concepts to the field data and vice versa, this chapter provided the measurements for the research question's concepts. It also produced the operational frames for different variables of interest as the antecedent for the next chapter, in which the research methodology is discussed. The research questions and research hypotheses informed the research methodology. The next chapter deals with empirical methodologies used to conduct empirical phase of this current study.

CHAPTER 6

RESEARCH DESIGN AND METHODOLOGY

6.1 INTRODUCTION

Research is only valid if it measures what it sets out to measure (Dillon, Madden & Fertle, 1990:384). A proper planned research project, designed according to empirical requirements, should ensure that the purpose and objectives of the study are achieved (Luck & Rubin, 1987:52). The literature necessitated that, Determinants and Impediments in the internationalisation process of Ethiopian SMEs in manufacturing enterprises worth investigation. And the findings revealed that internal and external factors motivate and hinder internationalisation involvement of Ethiopian firms. This chapter dealt with the methodological considerations of the study. It began with a discussion about the research paradigm and the scientific positioning of the researcher and is followed by methodological outlines that specify how the researcher proceeded to find out what is required in order to fulfil the purpose of the study.

The chapter continues with issues relating to this research design, rationale behind choices of the scientific methodology including choices of statistical tools as well as data collection methods including sampling design and procedures, administration of data gathering process, and data capturing, editing and analysis. The issue of maintaining scientific rigor through considerations of validity and reliability has been given much emphasis in this study. In addition, the usage of triangulation was discussed in order to assure the research quality in mixed research design. The theoretical context for concepts and the methodological approach for testing hypotheses are thoroughly explained. Lastly, a note is given on ethical considerations and the chapter ends with chapter summary.

6.2 PHILOSOPHICAL UNDERPINNINGS: THE RESEARCH PARADIGM

The philosophical stance taken was a key influence over the methodology as not only was it to match the style of the researcher but was to inform the choice and development of the research instrument. Philosophical considerations represent the basis of the selected research design and method of inquiry and they include ontological and epistemological issues. Ontology refers to the nature of human reality which can be conceived as of an objective nature external to the individual or, the product of individual cognition and mind. In the first case reality is independent of the mind, in the latter is constructed by the individual mind (Creswell, 2009).

The researcher's ontological position for this research is defined as pragmatism, because it views reality (Leather and Leather products industry in Ethiopia) in the context of the situation or reality there of independent of the researcher, based on socially stable constructs (quasi facts) and quantitative data (facts). Closely related to ontology is epistemology that is the philosophical theory of knowledge and it is concerned with what constitute warrantable knowledge and how a researcher can acquire it (*ibid.*).

In order to answer ontological and epistemological issues, the researcher refer to the purpose of this study, which was to gain a better understanding of internationalisation of SMEs in Ethiopia and to propose managerial and policy recommendations to alleviate the problems stated under problem statement section of this study. Meanwhile, as stated in the previous chapters in order to achieve the purpose of this study, an attempt has been made to understand the internationalisation of SMEs (social phenomena) through understanding of the owners', managers' and entrepreneurs' actions which is guided by their expected attitude and behaviour.

Pragmatism as a philosophy includes the use of induction (or discovery of patterns or gaining an understanding of the meanings humans attach to events, a closer understanding of the research context, and collection of

qualitative data, deduction (moving from theory to data, the collection of quantitative data, testing of theories and hypotheses, explanation of causal relationships between variables, application of controls to ensure validity of data and the selection of sufficient sample sizes in order to generalise conclusions), and abduction (uncovering and relying on the best of a set of explanations for understanding one's result) (Creswell and Plano, 2007).

Creswell and Plano (2007) further suggested the following epistemological rationale for mixed methods:

- 1) That all singular methods (i.e. interview, survey) and data types (numerical, audio, visual, word based) can be classified under one of two succinct paradigms (quantitative and qualitative)
- 2) That elements from each of these two paradigms can coexist in a single study
- 3) That a third category is needed to refer to studies which use elements of both paradigms
- 4) That pragmatism is the philosophical basis for this third category
- 5) That this third category should be in itself a separate paradigm

The link between philosophy and practice:

6).That direct normative links exist between paradigms and methodologies/methods and types of data

Empirical rationale for mixed methods:

- 7) That there should be a special focus on 'mixing' when using elements from both quantitative and qualitative paradigms in the same study, as these are inherently different in form
- 8) That the triangulation of epistemologies/methodologies/methods provides better quality data than a single approach
- 9) That by this, mixed method is a very effective method of research.

In line with logical positivism, pragmatism outlines that verification and generalization can be constructed from obtained knowledge. However, pragmatism also acknowledges subjectivity in the form of knowledge as obtained through personal experience. When accepting a continuum rather than opposite poles between objectivity and subjectivity, the researcher is allowed to move back and forth between theory and facts when studying particular objects or problems. This holistic form of pragmatism (Baert, 2005), where new evidence is considered in the light of the existing frame of knowledge, connects well to an abductive logic.

6.3 JUSTIFICATION OF THE PARADIGM

Pragmatism is generally regarded as the philosophical partner for the Mixed Methods approach. It provides a set of assumptions about knowledge and enquiry that (a) underpins the Mixed Methods approach; and (b) distinguishes the approach from purely quantitative approaches that are based on a philosophy of positivism and purely qualitative approaches that are based on a philosophy of interpretivism. In the context of research, pragmatism tends to revolve around the following core ideas:

- Knowledge is based on practical outcomes and 'what works'. The key criterion for judging knowledge is how useful it is perceived to be and how well it works when applied to some practical problem.
- Research should test what works through empirical enquiry.
- There is no single, best 'scientific' method that can lead the way to indisputable knowledge.
- Knowledge is provisional. What we understand as truth today may not be seen as such in the future.

Knowledge is seen as a product of our times. It can never be absolute or perfect because it is inevitably a product of the historical era and the cultural context within which it is produced. The quest for absolute 'Truth' is consequently seen as a hopeless cause. Traditional dualisms in the field of philosophy and science are regarded as not helpful. In particular, there is scepticism about the distinction

between quantitative and qualitative research, but there is also a rejection of distinctions like facts, values, objectivism, subjectivism and rationalism or empiricism.

Becoming a pragmatic researcher offers a myriad of advantages for individuals. First and foremost, it enables researchers to be flexible in their investigative techniques, as they attempt to address a range of research questions that arise. Pragmatic researchers also are more likely to promote collaboration among researchers, regardless of philosophical orientation. By having a positive attitude towards both techniques, pragmatic researchers are in a better position to use qualitative research to inform the quantitative portion of research studies, and vice versa. For example, the inclusion of quantitative data can help compensate for the fact that qualitative data typically cannot be generalised. Similarly, the inclusion of qualitative data can help explain relationships discovered by quantitative data.

Pragmatic researchers also are more able to combine empirical precision with descriptive precision (Creswell, 2007). Also, armed with a bi-focal lens (i.e. both quantitative and qualitative data), rather than with a single lens, pragmatic researchers are able to zoom in to microscopic detail or to zoom out to indefinite scope. As such, pragmatic researchers have the opportunity to combine the macro and micro levels of a research issue.

As noted by Yin (2009), combining quantitative and qualitative research helps to develop a conceptual framework, to validate quantitative findings by referring to information extracted from the qualitative phase of the study, and to construct indices from qualitative data that can be used to analyse quantitative data. Further, because quantitative research is typically motivated by the researcher's concerns, whereas qualitative research is often driven by a desire to capture the participant's voice, pragmatic researchers are able to merge these two emphases within a single investigation.

Because pragmatic researchers utilise mixed methodologies within the same inquiry, they are able to delve further in to a dataset to understand its meaning and to use one method to verify findings from the other method. Creswell and Plano Clark (2009) outlined the following five broad purposes of mixed methodological studies: (a) triangulation (i.e. seeking convergence and corroboration of results from different methods studying the same phenomenon); (b) complementarity (i.e. seeking elaboration, enhancement, illustration and clarification of the results from one method with results from the other method); (c) development (i.e. using the results from one method to help inform the other method); (d) initiation (i.e. discovering paradoxes and contradictions that lead to a re-framing of the research question); and (e) expansion (i.e. seeking to expand the breadth and range of inquiry by using different methods for different inquiry components).

Thus, for many mixed method researchers, then, pragmatism has become the answer to the question of what is the best paradigm for mixed methods research. Recently Teddlie and Tashakkori (2009) have attempted to formally link pragmatism and mixed methods research, arguing that, among other things, the research question should be of primary importance- more important than either the method or the theoretical lens, or paradigm that underlies the method. Propensity of SMEs internationalisation (i.e. whether a firm decides to go abroad or not) is a construct of central interest in this study. The researcher aimed to determine which variables motivate the firm to involve and expand its exports and to highlight the variables that hinder and discourage the firm's export involvement and expansion in exporting. This approach is in line with the works of Leonidou, *et al.* (2007).

6.4 RESEARCH DESIGN

A research design can be defined as a framework or blue print for a research study, which specifies the methods and procedures for collecting and analysing the required information (Hair, *et al.*, 2006; Malhotra, 2007). The choice of the

proper research design is crucial to ensure that the study will provide relevant information to the research objectives.

Adapting Leech and Onwuegbuzie (2009) three-dimensional typology of mixed methods designs, this study was a partially mixed sequential quantitative dominant survey study design. Mixed method research is recognised as another major research approach along with qualitative and quantitative research (Johnson, *et al.*, 2008). Mixed method research combines qualitative and quantitative approaches into the methodology of a single study. Mixed method research considers multiple perspectives, collecting data on processes and experiences along with objective data (Teddlie & Tashakkori, 2008). One initial decision in mixed method research is to determine whether the qualitative and quantitative approaches will assume equal status or whether one approach is dominant (Johnson, *et al.*, 2007).

Several recent studies of SME internationalisation reviewed by the researcher, have been employed quantitative large scale surveys (Smith, *et al.*, 2006; Vivekanandan and Rajendran, 2006; Ozkanli, *et al.*, 2006 ; Barnes, *et al.*, 2006; UKTI, 2006 and 2007; Lopez, 2007; UPS, 2007), qualitative case studies (Stonian, 2006; Ojala and Tyrvainen, 2007; Camara and Simoes, 2008) and mixed methods (Riding, *et al.*, 2007; Rundh, 2007; Crick, 2007; Kocker and Buhl, 2008; Orser, *et al.*, 2008). The researcher argued that, reflecting the relative strengths and weaknesses of each of these options are important before choosing a preferred approach for this thesis.

Quantitative surveys are widely believed to yield more objective, valid and reliable research results (Creswell, 2008). Their typical reliance on more representative, samples is also thought to produce more generalisable results, with better predictive value. They, however, suffer from increasingly low response rates and can be susceptible to measurement errors and use of "questionable" key informants. Another often cited weakness is that they offer limited scope for longitudinal research (Yin, 2009).

Qualitative case studies are attributed with generating rich, in-depth and quality data (Yin, 2009). They have capacity to go beyond the investigated cases to capture new realities, new ideas and theoretical insights on the research question/s (Yin, 2009; Creswell, 2011). Other key strengths of qualitative case studies include their greater suitability for longitudinal studies and for research contexts where the relevant population is not large enough to allow statistical generalisation. Qualitative case studies, however, are widely considered fewer objectives than quantitative approaches, and their typically small sample size exposes them to charges of limited representativeness and generalisability (Ibeh, 2005; Vissak, *et al.*, 2007).

The use of mixed methods in the studies reviewed by the researcher reflects an attempt to draw on the afore-mentioned strengths of quantitative and qualitative approaches, whilst also minimising their weaknesses. This is an increasing trend in SME internationalisation research, which responds to previous calls for greater integration of qualitative research insights to further enrich and clarify quantitative survey results (*ibid.*).

6.4.1 MIXED RESEARCH DESIGN AND METHODOLOGY

This study was conducted through combination of quantitative and qualitative methods. A main argument against such a strategy is that it combined incompatible scientific paradigms. However, as argued above, research philosophy based on pragmatism offers a way out of this dilemma, advocating the usage of mixed methods or models (Tashakkori and Teddlie, 2009). An additional advantage is to overcome single method biases in research (Hohenthal, 2006; Hilmersson, 2011). Combining qualitative and quantitative data also makes it possible to control the data or gain access to more levels of the phenomena studied.

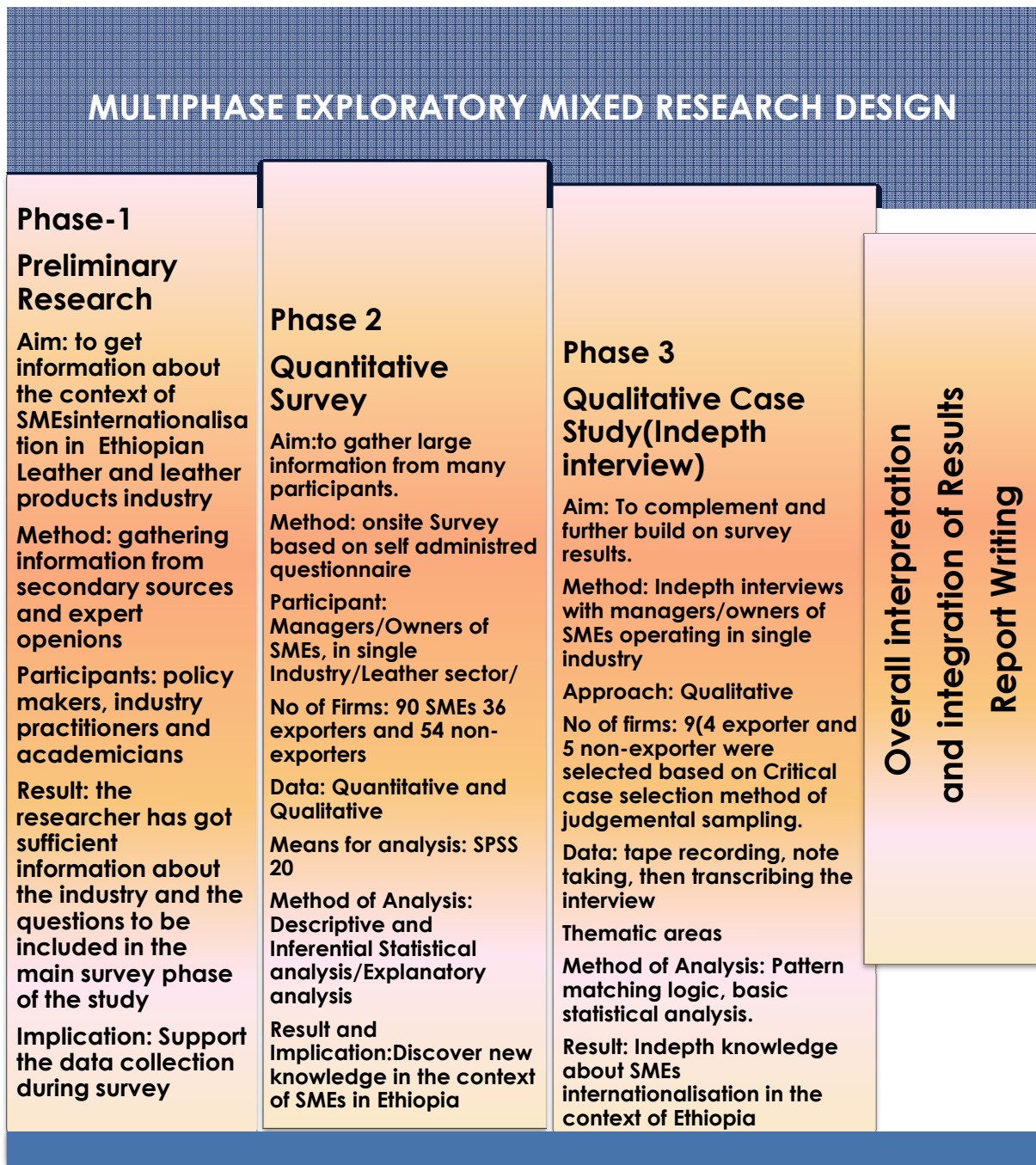
Thus, based on existing methodological gap of previous studies as mentioned above, both quantitative and qualitative strategies were applied in this study. Under mixed research design, survey and case studies methods were used as

major strategies. Mixed method research is an approach to inquiry that combines or associated both qualitative and quantitative forms. It involves philosophical assumptions, the use of qualitative and quantitative approaches in different stages of the research process and the mixing of both approaches in a study. Thus it is more than simply collecting and analysing both kinds of data. It also involves the use of both approaches in tandem so that the overall strength of a study is greater than either qualitative or quantitative research (Creswell and Clark, 2007).

According to Creswell (2009), one way of employing mixed method research design is to mix quantitative and qualitative approaches to research at different stages of a study. Both qualitative and quantitative questions are posed at different stages of a study, both forms of data collected and analysed separately at different stages of the study and interpretation of the entire analysis is made. Therefore, in this study the researcher used sequential multi-phase exploratory mixed method design in which the quantitative approach was followed by qualitative case study. This means the collection and analysis of quantitative data followed by the collection and analysis of qualitative data. Data were integrated during interpretation.

As to the method priority concerns; the quantitative approach was intended to take a primary role and was substantiated by the qualitative one. The quantitative approach through survey was used to test the proposed hypotheses. Qualitative case studies were used to support quantitative findings in order to address the major research questions and other sub questions. Figure 6.1 on the next page depicts an overview of the research design followed in this study.

Figure 6.1: Research design adopted for the study



Source: Author's own illustration for this research based on literature review (2015)

This study adopted a sequential approach which involves three phases (Creswell, 2009). Phase one begins with an exploratory study using a qualitative method at the first stage of the research in order to determine the gap of

knowledge that needs to be addressed. In the next phase, the quantitative approach was used to measure and analyse the relationship between export barriers, driving factors, managerial and organisational factors and propensity of SMEs internationalisation using survey. However, at this stage the information obtained was not in-depth because the concern was on large coverage. Therefore, case studies were then used at the third phase of the research. This phase was done through qualitative approach by interviewing individuals to obtain the underlying details that the quantitative approach on its own was unable to do. Figure 6.1 shows all the three phases that were involved in conducting this study. According to Creswell (2007), sequential strategy seems to be the most straight forward method compared to the other mixed method approaches.

6.4.1.1 PHASE ONE- PRELIMINARY RESEARCH METHODS

Discussion with experts, academicians and policy makers were done accompanied by literature review. The intention was to get insights in the motives and barriers of SMEs internationalisation in the context of developing countries. The names and affiliations of the Expert Panel were identified from the internet and through personal contacts. To ensure the authenticity of their stances, respondents were targeted due to their positions, qualifications, affiliations, age and length of working experience.

The outcome of the preliminary research in this study helped the researcher in indentifying the contextual and conceptual issues for empirical investigation that followed the preliminary exploration. The researcher used the output of the exploratory phase as input while undertaking the subsequent phases. The literature review focused on extant literatures in the two major disciplines, namely international business theory and firm internationalisation theory. In addition industrial policy and strategy documents issued by the Government were also consulted.

Interview schedule with ten thematic areas was used during the exploratory phase. The result was used while writing the research questions and development of survey instrument for quantitative phase of the study and further informed the follow up case study.

Apart from reviewing literature in the main domains, literature on methodology and conceptual models and frameworks from international business, international entrepreneurship and related disciplines e.g. strategic marketing, strategic management, import export procedures, was also reviewed. The purpose of this was to devise a model or framework that would encapsulate all the relevant constructs for investigation and to come up with an appropriate methodology to test these constructs empirically.

6.4.1.2 PHASE 2-QUANTITATIVE SURVEY

The second phase of this study was conducted through quantitative survey approach with the objective of addressing the issues of export stimuli and barriers by covering large sample size. A survey approach was preferred for two reasons. First, the data available on SMEs in Ethiopia is highly aggregated at the industrial or sectoral levels and limited both in terms of coverage and categorisation of enterprises by size. Policy advice based on evidence derived from statistical generalisations and aggregated data tends to be, in most cases, misleading or irrelevant for the needs of targeted enterprises. Many of the nuances about SMEs and all the factors that induce path dependent types of behaviour would be missed. Second, information gathered at the firm level provides the opportunity to assess the perceptions of enterprise owners about their perception towards different government export promotion programmes. In general, information gathered at the firm level provides the opportunity to assess the perceptions of enterprise owners about export challenges and possibilities in the context of Ethiopia.

Firms of all sizes are represented in the survey although, naturally, the main focus has been on the SMEs. The sample includes 36 exporting and 54 non-exporting

small and medium sized manufacturing enterprises operating in the leather and leather goods Industry. In addition, for comparison purposes, 3 large-scale enterprises have been included. There is a high level of geographic concentration of manufacturing activity in Ethiopia. Over 80 per cent of modern sector manufacturing activity is concentrated in the Capital city, Addis Ababa and the surrounding region, in particular along a 100 kilometre stretch between Addis Ababa and the town of Adama. The samples of enterprises selected for this study are located in the capital city.

The Quantitative part of this study was used to test the hypotheses developed in or order to see how different factors can facilitate and hinder SMEs internationalisation in developing countries, particularly in the context of Ethiopia. The hypotheses are developed based on the theoretical models of incremental internationalisation, the innovation theory, the network approach, the resource based view and the international entrepreneurship theory. The hypotheses were proposed by the researcher based on the thematic areas of this study. Accordingly, the first group hypotheses dealt with motivating factors of SME internationalisation and the second group focused on barriers of SME internationalisation. According to Trochim and Donnelly (2008:146), Quantitative research is confirmatory and deductive in nature, while qualitative research is exploratory and inductive in nature.

6.4.1.3 PHASE 3-QUALITATIVE CASE STUDY

To complement the survey results the study adopted a qualitative approach as its emphasis is on meanings and processes that cannot be measured in terms of quantity, frequency, intensity or amount. The qualitative approach allows for a deeper understanding of the phenomena that are being studied. Therefore, the qualitative approach is more consistent with investigative questions mentioned qualitatively in chapter one of this study. In topics like internationalisation, qualitative research is useful in investigating the meanings and interpretations that people (here, experienced export managers) give to events they have experienced, and is appropriate for understanding human

phenomena like the orientation of entrepreneurs, managerial perception and their actions and behaviour. Only a few statistics are used in the measurement of certain factors and the depiction of the involvement of SMEs in the global market, but most of the information and data are qualitative and serve to describe and explain the overall environment, and to seek the driving forces that lead SMEs towards international operations as well as those barriers that restrict internationalisation of firms.

A case study is “an empirical inquiry that investigates a contemporary phenomenon within its real life context using multiple sources of evidence” (Noor, 2008). The evidence used in a case study is typically qualitative in nature and focuses on developing an in-depth rather than broad, generalisable understanding. Case studies can be used to explore, describe, or explain phenomena by an exhaustive study within its natural setting (Yin, 2007). The method adopted in this phase herein entails a qualitative, primarily explanatory research perspective of the internationalisation process of Ethiopian SMES. However, elements of both exploratory and descriptive research are apparent in the cases because of the holistic nature of the research questions. The researcher used a multi–case study research strategy, allowing manipulation of the data using three modes of analysis: pattern matching, explanation building, and time series (Yin, 2009).

Table 6.1: Single-case versus Multiple-case study research

	Characteristics	Advantages
Single-Case Study	<ul style="list-style-type: none"> -uniqueness -Unusually revelatory -extreme examples or opportunities for unusual research access 	Rich description of the existence of the phenomenon
Multiple-Case Studies	<ul style="list-style-type: none"> - Contribution to theory development - Replication, extension or elimination of alternative explanations 	<ul style="list-style-type: none"> - Stronger base for theory building - Creation of more testable, robust and generalisable theory - Broader explanation of research questions

Source: Author’s elaboration for this study from Eisenhardt and Graebner (2007)

Accordingly, multiple case studies were conducted using the structured interview which is considered to be the most appropriate method for exploring further the research questions. It is able to provide depth and underlying information. The main theme of these semi-structured interviews is to work along with the survey and secondary data approach in examining further the propositions that have been developed. It is concerned with trying to understand how people in the organisations think and feel about the topics of concern as identified in the research.

6.5 JUSTIFICATION OF THE DESIGN AND METHODOLOGY USED

Combining quantitative and qualitative methods sounds like a good idea. Using multiple approaches can capitalize on the strengths of each approach and offset their different weaknesses. It could also provide more comprehensive answers to research questions, going beyond the limitations of a single approach (Creswell, 2009).

Mixed-methods research represents an important departure from the either/or assumptions of quantitative or qualitative approaches because it allows that both methods may be valuable depending on the type of research question under investigation. A central assumption in mixed-methods research is that there are many social science issues that can be better explored through the combination of different methods and techniques. Abductive reasoning can be understood as a process that values both deductive and inductive approaches but relies principally on the expertise, experience, and intuition of researchers. Associated with mixed-methods research, through the intersubjectivity of researchers and their understanding based on shared meaning, this approach to reasoning encourages testing intuitions theoretically and empirically. Based on the best information at hand, tentative explanations and hypotheses emerge through the research process and can be developed and/or tested using methods that are either quantitative, qualitative, or a mix of both (Yin,2009).

By relying on abductive reasoning, mixed-methods research offers an important new way to conceive of research and can produce more robust measures of association while allowing that multiple paths to meaning exist (Wheeldon, 2010). In addition to escaping the trap of seeing research as and either/or choice between quantitative or qualitative designs, mixed methods provide practical benefits as well.

Regarding the main benefits, the overall purpose and central premise of mixed methods studies is that the use of quantitative and qualitative approaches in combination may provide a better understanding of research problems and complex phenomena than either approach alone (Creswell and Clark, 2007). Better understanding can be obtained, for example, by triangulating one set of results with another and thereby enhancing the validity of inferences. In fact, the concept of triangulation of methods was the intellectual wedge that eventually broke the methodological hegemony of the mono-method purists (Tashakkori and Teddlie, 2009).

With respect to these main purposes, other authors indicated a wider range of reasons. For example, Collins, *et al.* (2008) provided a comprehensive list of reasons or purposes for conducting mixed methods research, and each of these purposes was grouped under one of the four main rationales: participant enrichment, instrument fidelity, treatment integrity, and significance enhancement. Bryman and Bell (2007) also presented a variety of purposes in mixed methods research: triangulation, qualitative research facilitates quantitative research, quantitative research facilitates qualitative research, analysis of static features, qualitative research may facilitate the interpretation of the relationship between the variables, and analysis of different aspects of a phenomenon.

Combining quantitative and qualitative methods sounds like a good idea. Using multiple approaches can capitalise on the strengths of each approach and offset their different weaknesses. It could also provide more comprehensive

answers to research questions, going beyond the limitations of a single approach (Creswell, 2009).

As to reasons for “mixing” concerns, (Creswell, 2007), suggested the following:

- The insufficient argument – either quantitative or qualitative may be insufficient by itself.
- Multiple angles argument – quantitative and qualitative approaches provide different “pictures”
- The more-evidence-the-better argument – combined quantitative and qualitative provides more evidence
- Community of practice argument – mixed methods may be the preferred approach within a scholarly community
- Eager-to-learn argument – it is the latest methodology
- “Its intuitive” argument – it mirrors “real life”

The business management research possesses the nature of being trans-disciplinary, diverse in scope, range and complexity which has contributed to the utilisation of mixed method. The main premise behind the usage of mixed methods is that it can provide more insight and a deeper understanding of the phenomenon being studied than a single method. Due to this, the usage of mixed method in business research has increased. A study was conducted by Hurmerinta and Nummela (2006) and Cameron (2008) on the extent and current role of mixed method research played in the business and management fields and it was found the usage of mixed method has increased. Based on the advantages discussed above this research has adopted the mixed method approach.

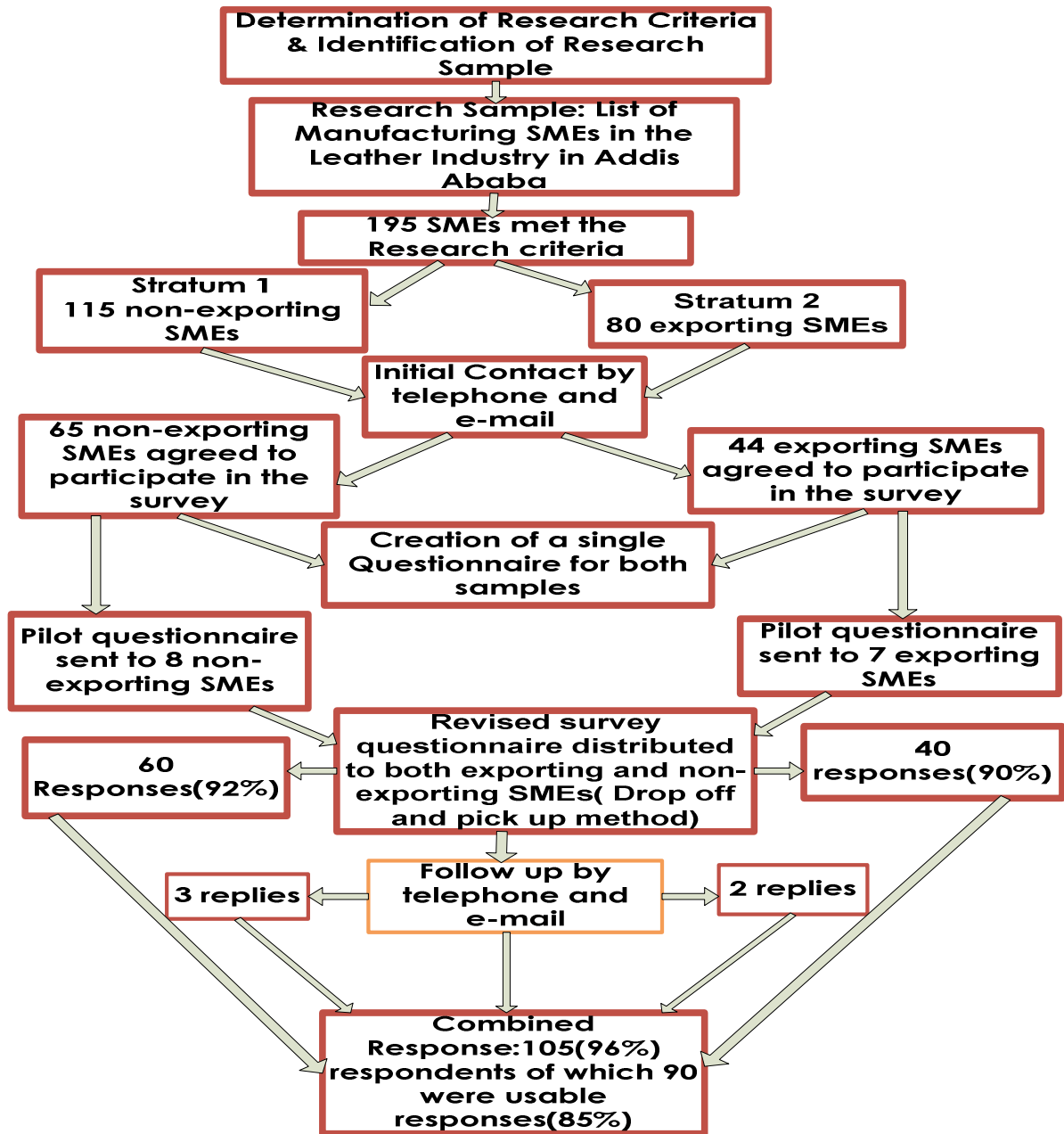
6.6 TARGET POPULATION AND SAMPLE

The target population for the quantitative and qualitative phases of the study was all SMEs manufacturing firms engaged in leather and leather goods manufacturing industry in Addis Ababa. From the total population of 195 SMEs

in the target geographical area, 90 sample enterprises which were 46% of the total target population was selected. Using disproportionate stratified random sampling 40 % exporters and 60 % non-exporting firms were included in the survey. This was justified due to the fact that the variability within the group is minimum compared to variability for the population as a whole.

Target population of 195 SMEs in leather and leather products industry were identified initially. This list was prepared based on the information gathered from Ministry of Science and technology, Ministry of trade and industry, databases of Ethiopian Business development Services Network (EBDSN), Ethiopian Leather Industries Association website, CSA of Ethiopia (2011) report. In order to maintain more statistical precision the researcher prepared list of exporting enterprises and non-exporting enterprises separately. In the process of getting representative sample, the researcher excluded those firms not in line with the set criteria of inclusion. Accordingly a sample frame of 195 firms of 80 exporting and 115 non-exporting SMEs was produced by the researcher for further sampling purpose. The detailed procedures followed in accessing and selecting sample firms for the survey phase of this study is shown in Figure 6.2.

Figure 6.2: Sampling Procedures Followed to Select Respondents



Source: Author's Own Construction for this current study(2015)

6.7 DEVELOPING A SAMPLING PLAN FOR CASE STUDY PHASE

In general, sampling plans for qualitative research are based on identifying persons who would be good informants of the phenomenon under investigation. Sample sizes are typically small (<40) and are based on the

principle of data redundancy or saturation. In contrast, quantitative samples are much larger. Samples in quantitative research are determined by a power analysis, which calculates the minimum sample size needed to detect a significant effect with a particular level of confidence (if a significant relationship or difference exists). For longitudinal studies, sample size estimates also need to factor in the potential for attrition over time (Yin, 2009).

Sampling will be done until redundancy in data will be reached? - The main indicator of sample size in qualitative research is often the point at which redundancy, or theoretical saturation of the data, is achieved. The researcher should indicate how and when the decision was reached that there was sufficient depth of information and redundancy of data to meet the purposes of the study. The sampling process should be flexible, evolving as the study progresses, until the point of redundancy in emerging themes is reached (Yin, 2009).

In this phase, the qualitative approach was used to ascertain consistent patterns in the results identified in the survey as well as to elaborate the quantitative findings. The selection of nine companies for the case studies was based upon the critical case selection based on survey results.

6.8 DATA SOURCE AND DATA COLLECTION PROCESS

6.8.1 SECONDARY DATA SOURCES

In addition to primary sources, secondary sources of information were used including lessons drawn from earlier literatures on the same issue. Thus, relevant secondary sources for this study included review documents, marketing journals, Industry reports and SMEs annual reports, and other documents showing the experience of other countries in the area of SMEs internationalisation. In this study, special attention was given to latest internationalisation, international business and international entrepreneurship books, and Journal articles. In Ethiopia, major secondary sources were reports and publications of Central Statistics Agency, Addis Ababa Chamber of Commerce, Ministry of Trade and

Industry, Leather and Leather Products training Institute, and SMEs promotion agency.

These secondary sources were used in examining SMEs patterns and associated challenges as well as understanding the role of government support to redress export barriers as discussed in previous chapters. This enabled the researcher to acquire, an in-depth knowledge into the internationalisation practices and barriers of SMEs in Ethiopia. The researcher of opinion that the sources chosen are to a reasonable extent reliable: sources such as, Addis Ababa University library, UNISA Library Databases, Google Scholar and academic books from different authors as well as company reports. These sources were enabled the researcher to observe different views, some arguing for and against existing firm internationalisation theories and models in order for the researcher to be unbiased in his analysis during the course of this research.

6.8.2 PRIMARY SOURCES OF DATA

Primary data through survey questionnaire and structured interview were gathered from exporters and non-exporters. Self-managed questionnaire of close ended questions by adopting 5 point Lickert scale was used for the survey. However; the interview questions was framed in structured way with open-ended questions to allow flexibility in gathering data that cannot be addressed by the questionnaire. This was due to the fact that the various data collection modes are not mutually exclusive. Rather, they can be employed in a complementary fashion to build on each other's strengths & compensate for each other's weaknesses.

To this end, Yin (2009) states, "no single source has a complete advantage over all others". The different sources are highly complementary, and a good case study should use as many sources as possible. He further suggested that, the validity of scientific study increases by using various sources of evidence.

By applying the key informant approach, SMEs manager/s and or owner/s were contacted to fill in the survey questionnaire and to give interview. Thus,

respondents were senior officers/executives/owners in charge of export management practice of the targeted companies who can be expected to have an experience about the operation and management of internationalisation practice and challenges faced in their organisation, such as General Managers of the companies, Marketing Managers and Strategic Planners. The researcher assumes that these persons have enough knowledge to comprehend and can respond to questions concerning internationalisation practices and barriers faced in their respective companies. In order to substantiate survey result 5% of survey respondents 10% of survey respondents (.1*90=9) managers were interviewed.

6.9 MEASUREMENTS AND SCALING

Measurement means assigning numbers or other symbols to characteristics of objects according to certain pre-specified rules (Malhotra, 2007). According to Malhotra (2007), measurement is the actual assignment of a number from 1 to 100 to each respondent. The survey instrument was based on the studies by (Ibeh 2004; Kazem and Heijden, 2006; Leonidou, *et al.*, 2007). The survey instrument asked questions about the firms' export barriers, and the firms' motives toward exporting. Most questions will be asked using the five-point Likert scale. Factor and reliability analyses were used to assure construct validity of the measures for industries selected. All measures were examined and verified for face validity by four industry executives experienced in exporting and international business, and three university professors who were published authors and have extensive experience teaching and consulting in the areas of international business and marketing.

6.10 QUESTIONNAIRE ADMINISTRATION

Every effort to be placed on the details of the survey administration is to convince the target group that their help and cooperation is vital to resolve a considerably important issue. The reward of each respondent therefore refers to the consultancy role offered to him or her by the researcher. Regarding who

should be the respondent for each of the firms included on the list of respondents, the key informant approach was used. "The role of a key informant is to aggregate information about organisational activities or outcomes; hence, informants should be selected on the basis of expertise."

Adopting the key informant approach corresponds well with discussions carried out within the SME literature, where the key decision-maker is believed to have a prominent role as a strong and direct influencer of the firm's actions. In particular, SME research has found that it is often the key decision-maker(s) who is (are) responsible for handling the export (Byberg, 2006). Moreover, a company's CEO has been found to be the preferred person to answer questions of strategic nature and those related to firm internationalisation (Galbreath and Galvin, 2008). Correspondingly, the questionnaire was addressed to the key decision-maker and/or owner of the firm.

To ensure a high response rate, Leather and Leather Products training institute, in charge for provision of training and support for manufacturing firms in Ethiopia, was approached regarding the possibility of getting letter of cooperation supporting this research. Linking the study to a renowned organisation has been found to strengthen the trust between the respondents and the researcher, and aid the respondents' willingness to answer the survey questions.

Further, to increase the response rate additionally, the researcher attempted to initially reach each respondent by phone. To talk to the addressee in person can often resolve problems such as the questionnaire being directed to the wrong person, that the firm no longer exists, and/or that the addressee is too busy to answer the questionnaire. However, the main reason for calling all the respondents is to inform them briefly about the survey and to ask for their participation. This approach should ensure the respondents that their participation will be highly important. If a respondent agreed to answer the survey questions, he or she will be given a traditional paper copy of the survey. By offering the respondents sufficient time, they could answer the questions

whenever they preferred, adding to their convenience. This is particularly important when asking busy professionals to answer questionnaires.

6.11 THE QUALITATIVE INTERVIEW

Interview checklist was used during interviews to keep the informants on track. The interviews, was conducted using a semi-structured interview guide. Prior to an interview, the interviewer contacted the respondent to arrange convenient time. In addition to enabling the researcher to obtain in-depth information about target group, Interviews had the added advantage of allowing the interviewee to volunteer information rather than responding to structured survey questions that might hamper the process of obtaining holistic understanding of the process.

6.12 DATES AND SETTINGS OF DATA GATHERING

Actual data gathering for the current study was started as of July 2014 and completed in September 2014. Follow up interview was conducted in December 2014.

6.13 RESEARCH QUALITY

A researcher must expose to the reader such insight into the research design and management that assessment of research quality can be made. Research quality is commonly discussed in terms of validity and reliability (Yin, 2009). The *validity* of a study relates to what degree concepts and theories used are relevant for the particular scope of the study (Creswell, 2009). The success or appropriateness of the operationalisation process therefore to a large extent determines the validity of a study. It is when transferring theoretical constructs into measurable items that systematic errors can be either avoided or built into the research.

6.13.1 RIGOUR OF THE QUANTITATIVE PHASE

Internal validity refers to the “extent to which its design and the data that it yields allow the researcher to draw accurate conclusions about cause-and-effect and other relationships within the data” (Trochim, 2006). Since the current study is not pure experiment, perfect cause and effect relationship among variables were not expected. The researcher didn't apply control on variables. The researcher in the current study aimed at a mere identification of important factors associated with SMEs internationalisation. The aim was not to establish a definitive cause and effect relationship among variables. That is why survey was preferred method instead of experiment which is common in pure cause-effect research. Thus, internal validity has been treated pursuant to design requirements. Since the study was cross-sectional study, no control over variables because all the hypotheses are hypotheses of association not causation.

The research design must be without serious errors that can cause low internal validity, while it must also develop variables and measuring instruments that are well-defined, ensuring high validity. Internal validity concerns causal relationships that are difficult to verify from correlational studies (Yin, 2009). But, in the current study an attempt to assure internal validity was made through assessing theories against the constructs continuously during the research process.

Internal validity calculates the extent to which the responses from the respondents reflect the same attributes (Fink, 2008). The triangulation technique through mixed research ensured the validity of the data gathered through the questionnaire, which asked multiple questions of the target sample to determine the integrity of the answers (Fink, 2008).

Statistical conclusion validity refers to the “assessment of the mathematical relationships between variables and the likelihood that this mathematical assessment provides a correct picture of the co-variation (Type I and Type II error). To ensure internal validity in the current study, the researcher controlled

the effect of alternative explanation (explanations that make hypothetical relationship spurious). Thus, alternative explanations were controlled by using appropriate statistics, such as confidence interval, significance level, coefficient of association without creating control and experimental variables in the study.

External validity refers to the “extent to which its results apply to situations beyond the study itself...the extent to which the conclusions drawn can be generalised to other contexts” (Yin, 2009). Additionally, external validity addresses the “generalisability of sample results to the population of interest, across different measures, persons, settings, or times. To maintain external validity in current study Stratified random sampling procedure was used to have more representative samples.

The sample frames of the survey related to a population of mature market SMEs. As a pre-study, the survey phase started with a geographical selection that revealed the predominance of SMEs in terms of firms in the country operating in the leather sector. For the survey phase of the study a random sampling procedure was undertaken of a larger sample covering industry concentrated geographical area.

Reducing non response rate by using drop off and pick up strategy, reminding follow up was conducted using phone and e-mail. Moreover, a non response analysis was conducted in order to assure generalisability beyond the sample. Accordingly, the non-response percentage was too low in the current study. Sample size was determined considering probability of non response. Thus, this study has high external validity due to the fact that the researcher was able to manage the following threats to external validity:

- Not suffered from unusual type of people in the study error by using carefully selected representative sample. Was not affected by unusual place error where the study was conducted- the researcher managed this problem because the study's geographical area was industrial cities where almost 80% of leather sector firms operate in Ethiopia.

- Since the data were collected within short period of time, external validity was not affected by peculiar time effect. The researcher used proximal similarity approach by clearly describing how the current study's context is different and similar with other similar industries.
- Careful sampling was conducted and there was no probability of firm's liquidation within the study's period, these kept the rate of dropout so low. In addition careful follow up throughout the study was done as assurance mechanism for whether those selected respondents remain part of the sample.
- Care for over coverage was taken by excluding elements not in the target population. The quality of sampling frame was monitored by verifying information during data collection so as to check for out of scope units.

Reliability is defined as “the consistency with which a measuring instrument yields a certain results when the entity being measured hasn't changed” (Leedy & Ormrod, 2005). According to Creswell (2007), researchers should try to answer the following question in an attempt to address reliability; “do measures show stability across the unit of observation? That is, could measurement error be so high as to discredit the findings?” Reliability can be established in four different ways: equivalency, stability, inter-rater, and internal consistency (Trochim, 2006).

In this study internal consistency was the preferred choice to measure item reliability. Internal consistency focuses on the level of agreement among the various parts of the instrument or process in assessing the characteristic being measured. The method was valid since Lickert Scale items dominated the question type in the current study.

The basic idea of showing reliability in the instrument was to see how consistent the results of the assessment scores were. The pre-test/pilot results were analysed using descriptive statistics, and checked for internal consistency reliability using inter-item correlations and Cronbach's (1951) alpha. As the reliability

coefficients outlined in the next page indicate the scale items form a scale that has reasonable internal consistency (Leech, *et al.*, 2005), items with moderate to low correlations were not eliminated at this stage as this would only make a small difference in the alpha. The basic idea of showing reliability in the instrument is to see how consistent the results of the assessment scores are.

To ensure item internal consistency in the current study the following major activities were done:

- Draft questionnaire was developed based on past empirical work, exploratory study result and literature review.
- Pilot test of the draft questionnaire was conducted on 15 similar firms
- Any negatively worded questions were reversed during data preparation
- Items were added and deleted or modified depending on the pilot study result

Using SPSS for Windows version 20, reliability statistics were conducted for Cronbach's Alpha value. Past researchers, like Ibeh (2004); Leonidou, (2007); Ojala, (2009); Okpara, (2010), used Alpha value of >.75 in the study of firm internationalisation. This was used as a bench mark in determining item reliability in the current study. Accordingly internal consistency for the current study was found to be >.80 on average. For detail see the following statistical output of reliability analyses as shown in Table 6.2

Table 6.2: Items Reliability Statistics

Managerial Stimuli Factors reliability		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.852	.850	6
Financial Stimuli Factors reliability		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.812	.818	4
Production Stimuli Factors reliability		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.805	.828	4
Research and Development Stimuli Factors reliability		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.845	.849	3

Marketing Stimuli Factors reliability		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.893	.899	4
Domestic Market Stimuli Factors reliability		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.807	.815	7
Foreign Market Stimuli Factors reliability		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.881	.875	11
Home government Stimuli Factors reliability		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.825	.820	4
Foreign Government Stimuli Factors reliability		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No of Items
.936	.937	2
Intermediaries Stimuli Factors reliability		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.805	.791	4
Competition Stimuli Factors reliability		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.823	.791	5
Customers Stimuli Factors reliability		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.872	.880	3
International entrepreneurial orientation Scale		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.958	.952	19
Internationalization Modes Scale		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.949	.953	4
Export performance Indicators		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.893	.920	3
Informational barriers scale		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.875	.878	6
Functionalbarriers scale		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.822	.824	8
Marketingbarriers scale		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	N of Items
.853	.851	17
Procedural barriers scale		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.843	.841	8
Task barriers scale		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.853	.843	3

Governmental barriers scale		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.808	.811	4
Environmental barriers scale		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.927	.930	18
Perceived government support scale items		
Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	No of Items
.907	.912	18

Source: SPSS Process output (June, 2015)

Validity refers to whether or not a question manages to measure what it is supposed to measure. For quantitative survey research, Creswell and Clark (2011) discuss validity in terms of face, content, construct, and external validity. In general, if the survey instrument to be used to collect information has been used previously, then the validity and reliability of the instrument should be easily shown. This is because of the availability of references to previous literature that has demonstrated successful use of the survey instrument establishing its content, construct, and face validity and reliability. An instrument that has already been shown to be valid and reliable is preferable (Creswell, 2009). In this current study past instruments were used as a benchmark while developing the draft questionnaire for the study.

In studies that involved results based on survey instruments, it was always important to discuss the validity and the reliability of the survey tool. In general, the validation of a survey instrument shows that the accumulation of the information gathered provides evidence that the inferences about the population in question are appropriate based on the statistics used in the analysis (Creswell, 2009). These three types of evidence, namely, the content, the construct, and the criterion of the instrument, can help a researcher to assess the validity of a survey tool. This assessment can be accomplished by sourcing previous literature that has validated the instrument or by obtaining face validity, where the validity of the instrument is determined by a panel of experts in the field that the survey is supposed to measure (*ibid.*).

Face Validity: Is the extent to which the content of the indicators matches the construct definition. This judgment is based on logic and common sense. As the indicators and constructs used in this study are developed on the basis of theoretical literature and related empirical studies, they qualify for face validity. Moreover participant input during the pilot study was incorporated and the instrument was further improved.

In line with Yin (2009) content validity in this study was strengthened through triangulation via multiple sources of evidence; websites, official databases and reports in addition to preliminary interviews. It was made in order to establish a chain of evidence in terms of transparency from the research question to the conclusions which was drawn from the study. Moreover, it was assured in the study by allowing colleagues within the field to review the operationalisation of the constructs in order to evaluate the validity of the indicators.

Construct validity: concerns indicators of a construct to be consistent. This was assured through careful operationalisation of the constructs based on extant theory, and measures showed to be valid in earlier studies and publications. Moreover; the construct validity was further assured in this study by drawing questions from existing internationalisation theories and was a retrospective design so that different patterns and behaviour's of the foreign market entry of the target firms actually covered.

In general the following were considered to add more validity of the measurement instrument of the current study:

- Clear directions and instructions for the respondents in the survey were included.
- Confusing and ambiguous items were removed based on the pilot study which was done on sample of 15 SMEs.
- Easy and common vocabulary in the areas of internationalisation was used to minimise errors due to difficult vocabulary
- Difficult and complex sentences were not included in the questionnaire

- Standardised survey administration procedures was used throughout the process
- No technical jargon was used in the questionnaire
- Consistent and transparent coding methods were used

Criterion Related Validity: Also known as instrumental validity, criterion related validity is based upon the premise that processes and instruments used in a study are valid if they parallel similar those used previous, validated research. In order to establish criterion related validity strong parallels drawn between as many particulars of the validated study population, circumstances, instruments used methods followed as possible.

Rigor in a study comes from the validity of the research, the reliability of the findings, and the use of triangulation in data collection (Trochim & Donnelly, 2006). A valid work must be supported, acceptable, and convincing. Each piece of research adds to their particular discipline and often does so by adhering to the guidelines for proper research. According to Trochim and Donnelly (2006), validity refers to the best estimate of the truth of any proposition or conclusion or inference described in the research. Validity was used to assess the quality of the research conclusions. The internal and external validity of the research were evaluated to determine the cause and effect relationship between the variables identified in the hypotheses.

According to Creswell (2009), validity plays a significant role in a qualitative study in that it is a powerful source used to determine the accuracy of the study's findings. To increase the validity of this study, triangulation was used. Triangulation is the method of using multiple research approaches and methods. Such a technique can help in overcoming the bias and unproductiveness of a single method. It can be applied to both quantitative validation and qualitative validations (Yin, 2009).

Mixed methods are inherently neither more nor less valid than specific approaches to research. Likewise, as with any research, validity stems more

from the appropriateness, thoroughness and effectiveness with which those methodology that are applied and the care given to thoughtful weighing of the evidence than from the application of a particular set of rules or adherence to an established tradition (Greene, 2007).

6.13.2 RIGOUR OF THE QUALITATIVE RESEARCH

The issue here is the extent to which qualitative researchers can demonstrate that their data are accurate and appropriate. One of the responsibilities of any qualitative researcher is to create a high level of consistency in the research result he/she produced. For example, the readers and research participants should see why a particular research model was used and why the participants were selected for the study. The data analysis process should also reveal a believable link between what the participants expressed and the themes and codes that emerge. The accuracy of this process for both the readers and participants creates a measure of credibility to the research project. As such, credibility can be defined as the methodological procedures and sources used to establish a high level of harmony between the participants' expressions and the researcher's interpretations of them (Denscombe, 2007)

The following are methodological procedures used for ensuring credibility in the qualitative phase of current study:

Time: The researcher established enough contact with the participants and the context to get the needed informations. The collection of data over a prolonged period and from a range of participants increased the probability of false information due to recall error. Thus, in this current study data were collected with in short period of time.

Angles: The author of this current sutudylooks at the data from different perspectives and viewpoints to get a holistic picture of the environment and the use of a variety of methods to gather data;

Colleagues: The researcher used knowledgeable professionals in the area to review and critique the research and data analysis findings. Moreover, the

researcher used reflective approaches through keeping a journal of reflections, biases or preconceptions and ideas;

Triangulation: The researcher seeks out multiple sources of data and used multiple data-gathering techniques.

Member checks: Participants were allowed to see draft data analysis to make sure that the data analysis was accurate and consistent with their beliefs and perceptions of the context being studied.

The involvement of participants was implemented through member checking. Member checking may consist of the involvement of participants in a range of activities to verify data and interpretation such as returning transcriptions to participants for review of accuracy of the interview content or returning to participants at various stages during collection and analysis of data to ensure that the researcher reflects or presents the experience of the phenomenon as it is understood by the participants.

The respondent validation: The researcher returned to the participants with the data and findings as a means of checking the validity of the findings. This allowed a check on factual accuracy and thus, the researcher's understandings to be confirmed (or amended) by those whose opinions, views or experiences were being studied. There are, though, some limitations to respondent validation, notably in the sense that the analysis of the data might take the explanation beyond something that would be immediately recognisable to the respondent.

Dependability: In qualitative research dependability relates to the consistency between the data and the findings. There should be a clear explanation of the process of research including methods of data collection, analyses and interpretation often indicated by evidence of an audit trail or peer review. The audit trail describes the decision points made throughout the research process. (Denscombe, 2007).

In this current study dependability was ensured:

- By showing clear account of all the procedures followed regarding data collection and analysis has been clearly documented.
- Data were collected within short period of time to minimise impact of changes in the environment.
- Alteration of the research method depending on the situation.
- Giving field notes to reviewers before data analysis
- Use of case study protocol and interview checklists to maintain consistency in data gathering from all participants.
- Appropriate database was created to maintain the data for future reference and replication of the study in different context.
- Transparency was ensured throughout the course of the study supported by a solid documentation of the research process and the use of standardisation in the surveys.
- Visiting the firms on-site also enhanced the reliability of the study since it ensured that the most competent respondents answered the questionnaire.
- The risk of common rater effects as a result of using key informant approach and other method biases was counteracted in the surveys through careful design and standardisation of the questionnaire.
- The choice of respondents was done in both survey and case study phases, based on the expertise of the respondent, and thereby the reliability of the findings from the studies was strengthened.
- The empirical phase experienced less distribution bias, a higher likelihood of thoughtful replies, and no interviewer bias due to proper training and orientation of research assistants.
- The informants were knowledgeable, holding no motive to not telling the truth, and were motivated to provide seriously and assumed to provide

thoughtful replies because they have no relationship with the research and the researcher.

- o The researcher's role(s), level of participation and relationship with participants was clearly defined and managed.

Confirmability: Confirmability was concerned with providing evidence that the researcher's interpretations of participants' constructions are rooted in the participants' constructions and also that data analysis and the resulting findings and conclusions can be verified as reflective of and grounded in the participants' perceptions: In essence, confirm ability is expressed as the degree to which the results of the study that are based on the research purpose and not altered due to researcher bias (Denscombe, 2007).

Confirmability is an accurate means through which to verify the two basic goals of qualitative research:

(1) To understand a phenomenon from the perspective of the research participants and (2) to understand the meanings people give to their experiences.

Confirmability can also be expressed through an audit trail where an independent reviewer is allowed to verify the research process and interpretations of the data as consistent on both the literature and methodological levels. Selected participants can also be asked to review some of the coding and meaning-making process to determine whether the researcher's interpretations are consistent with their perceptions.

First it raises questions about the involvement of the researcher's 'self' in the interpretation of the data and, second, it raises questions about the prospects of keeping an open mind and being willing to consider alternative and competing explanations of the data which involves the strategies used to limit bias in the research, specifically the neutrality of the data not the researcher. This was enhanced through the researcher being reflective and keeping a journal, peer review such as asking a colleague to audit the decision points

throughout the process and checking with expert colleagues about ideas and interpretation of data, checking with participants about ideas and interpretation of data.

The researcher can also make the research process as transparent as possible by clearly describing how data were collected and analysed and possibly offering examples of the coding process in the final document. Therefore, the following were the most important activities to ensure confirmability:

- *Outlier data that do not fit with the analysis were not neglected and appropriately managed through data transformation.*
- *A reflexive account of researcher's self-the researcher gave due care for his self values and motives from affecting with the research practice. To minimise researcher's bias.*
- *All the constructs developed are free from researcher's bias because it was developed based on extant theories.*
- *During qualitative interview negative instances or deviant cases that contradict with the emerging analysis was appropriately considered.*
- *Rival explanations in thematic analysis were strictly managed.*
- *Appropriate and transparent condign was used.*

Transferability: This refers to the prospect of applying the findings from research to other examples of the phenomenon. It concerns the ability of research findings to explain, or occur in, similar phenomena at a general or universal level rather than being something that is unique to the particular case(s) used for the research (Yin, 2009) which is related to whether the findings can be transferred to other situations. Has the researcher described participants and the setting in enough detail to allow for comparisons with your population of interest? Transferability was ensured through adequate descriptions of sample and environmental setting and context of the current study.

One of the strengths of qualitative research is the way it provides rich and detailed descriptions of the phenomenon it is investigating. These are often referred to as 'thick descriptions' (Yin, 2009). Such descriptions are 'thick' in the sense that they are multi-layered, providing the reader with insights at a number of levels about a variety of topics. They enable a depth of understanding about the situation or events being described, something that is particularly valuable in terms of the transferability of findings. The researcher needs to supply information enabling others to infer the *relevance and applicability of the findings* (to other people, settings, case studies, organisations, etc.) (*ibid.*).

Appropriate information about the size/characteristics of firms and the social context of the industry it becomes possible to think about how the findings might apply to similar students in similar schools. Armed with the appropriate information the reader can consider the transferability of the findings.

In any research, there should be careful thought into selecting the participants with the inherent notion that they somehow represent the entire population. This being the case, researchers and readers can then begin to make connections from the revealed data to both local and entire community-level behaviour and practice. These considerations were applied to qualitative methodologies through a process called transferability.

To increase transferability, qualitative researchers should focus on two key considerations: (a) how closely the participants are linked to the context being studied, and (b) the contextual boundaries of the findings.

In the first consideration, the participants need to be relevant members of the community related to the study. The other consideration is concern about providing a complete understanding of the context being studied and ensuring that the research questions are appropriately answered. It is from here that readers can explore the research document and determine if the findings can be transferred to their setting or environment.

Qualitative researchers can use two strategies to increase the transferability of a study. The first is through thick description. Thick description means that the researcher provides the reader with a full and purposeful account of the context, participants, and research design so that the reader can make their own determinations about transferability. The other methodology is through purposeful sampling. Here, participants were selected because they most represent the research design, limitations, and delimitations of the study. Participants most consistent with the research design will enhance the potential that readers can assess the degree of transferability to their given context.

Authenticity: An important issue for qualitative research is that of authenticity. In establishing authenticity, researchers seek reassurance that both the conduct and evaluation of research are genuine and credible not only in terms of participants' lived experiences but also with respect to the wider political and social implications of research. Authenticity involves shifting away from concerns about the reliability and validity of research to concerns about research that is worthwhile and thinking about its impact on members of the culture or community being researched. Authenticity, then, is seen as an important component of establishing trustworthiness in qualitative research so that it may be of some benefit to society (Denscombe, 2007).

6.14 DATA MANAGEMENT AND ANALYSIS

Data analysis process is a way to discover "patterns, coherent themes, meaningful categories, and new ideas and in general uncovers better understanding of a phenomenon or process" (Suter, 2006). Since the aim of this research was to explore, describe and explain the process of SMEs internationalisation, different analytical techniques were applied.

6.14.1 QUANTITATIVE DATA ANALYSIS

In this study, researcher used SPSS (Statistical Program for Social Science) for Windows version 20 in doing quantitative data analysis. Researcher used several methods of descriptive statistic, based on Likert-scale statements, namely:

reliability analysis, the frequency method and other descriptive and inferential statistical methods. Overall, the data processing method was used to process the questionnaires that had been collected and seek answers to research questions and to test hypotheses that have been proposed in the previous chapter. The following are the quantitative data analyses procedures followed to process and analyse quantitative data:

- Data coding-Coding is the process of assigning a numerical value to responses to facilitate data capture and processing in general. The response categories for closed questions have been pre-coded on the questionnaire. The open ended questions were post-coded in the form suitable for data entry.
- Editing- to check error, inconsistency and non response
- Imputation of data entry into computer Using SPSS for windows 20 spreadsheet.
- Data preparation for analysis through outlier check, data distribution and response categories.
- Descriptive statistics was used to describe the overall nature the data. Frequencies, mean, mode, standard deviation and distribution of the data were checked before the main analysis of the data using inferential statistical techniques.
- Statistical data processing by using SPSS for windows version 20.
- Data presentation and description by using graphs and tables
- Analysis, interpretation and discussion of results

6.14.1.1 SUMMARY OF STATISTICAL METHODS USED

Descriptive statistics: Used to describe and present data measured on ordinal and nominal scales, for example, data can be presented in terms of summary frequencies (Cohen, *et al.*, 2007). Demographic information in this study is presented graphically in the form of histograms in order to illustrate the

distribution pattern of the participants. Furthermore, the pattern results regarding the perceptions of participants of export barriers and stimuli are illustrated by the mean scores.

To further extend statistical analyses, after the data was coded, examined and cleaned, the following data analysis techniques were employed in this order: reliability test of scales with Cronbach's alpha indicator, Chi-square test of independence, Spearman Rank order correlation coefficient, exploratory factor analysis (EFA) with Varimax rotation with testing for validity and reliability of the model, Binary logistic analysis and finally multiple regression analysis. The statistical parameters of each step were compared with the criteria applied in the analysis of multivariate data (Hair, *et al.*, 2010). The following discussion presents details of each statistical technique used to analyse survey data of the current study.

Exploratory Factor Analysis was used to group and define major factors which affect internationalisation decisions of SMEs managers. One of the topics the researcher discussed around factor analysis issues is the number of factors being retained, which is the most vital judgment to make after extracting factors. A misstep at this stage, such as extracting too many or too few factors, may cause incorrect conclusions in the analysis (Hayton, *et al.*, 2004).

In deciding how many factors should be retained, researchers are often advised to consider several criteria: a predetermined number of factors based on research objectives and/or prior research, the percentage of variance criterion (Hair, *et al.*, 2010); Kaiser's eigen value greater than one rule; scree plot (*ibid.*) and Horn's parallel analysis (PA). Among these, PA is the most recommended method to deal with the number of factors-to-retain issue and was set for the current study as follows:

- Kaiser-Meyer-Olkin (KMO): from 0.50 to 1.00;
- Number of factors to retain was decided according to the result of PA;
- Significant level: less than 0.01;

- The cumulative percentage of variance: 60.0 % or higher

The results from Exploratory Factor Analysis were then used in binary logistic regression to examine the impact of each of the factors that may influence SMEs internationalisation decisions as well as to find out the most influential factors.

Logistic Regression using enter method was used to identify the factors that influence the decision of SMEs to join international market. Internal and external stimuli factors, firm related factors and managerial related factors were analysed once the factors were reduced using factors analysis. Reliability and validity of the various scales used in the study are tested by computing the Cronbach's Alpha and by conducting exploratory factor analysis using Principal Component Analysis with Varimax Rotation respectively.

The logit model was formed as follows:

Logit (ρ) = $\text{Log} [\rho / (1 - \rho)] = \beta_0 + \beta_1 F_1 + \beta_2 F_2 + \beta_3 F_3 + \dots + \beta_n F_n$, of which:

ρ_i = the probability of an SMEs is being an exporter;

β_0 = log odds of firms which is considered as non-exporter (when all $F_i = 0$)

β_i = log odds of firms which is considered as exporter (when $F_i = 1$)

Findings obtained in the form categorical scale are presented as frequency tables. In the same vein, to evaluate the hypotheses, the Chi-Square Test was used to investigate the relationship between firm age, firm size, managers experience and firm export involvement. Hypotheses were tested at the 95% significance level ($p < 0.05$).

Multiple regression analysis was used to ascertain if a significant amount of the variation in the export performance of small firms could be explained by internal and external export barriers. Furthermore, after having evaluated all the regression methods, and enter, Stepwise, Forward, Backward and Remove, the researcher decided to adopt the standard multiple regression approach.

6.14.2 ANALYSIS OF QUALITATIVE DATA

As mentioned in the previous section the third phase of the current study was qualitative case study approach. The qualitative approach is used to ascertain consistent patterns in the results identified during prior phases as well as to elaborate the quantitative findings. For this phase 9 firms (4 exporters and 5 non-exporters) were selected and interviewed. The findings of this stage were used to obtain the underlying details, where the quantitative approach was unable to do so.

According to Merriam (2009) the researcher is recommended to use an inductive and comparative way of analysing qualitative data. While, Yin (2009), states that the use of a deductive approach is more suitable. A data analysis is conducted in order to examine, test or recombine evidence to answer the research questions (Yin, 2009). Furthermore, Yin (2012) stresses four different techniques when analysing the empirical data, which are pattern matching, explanation building, time-series and replication. The last one technique is aimed for multiple case studies and basically about using these three first techniques in each single case in the paper. Pattern matching is addressing matching or pattern findings between the empirical data collected and the predicted data, theory (*ibid.*). Yin (2012) stresses an additional analytic challenge, which is to determine whether you can make any generalisations from your case study. However, in the current study case study was conducted to complement the survey phase of the study. Detail of data processing and interpretation is given in the section that deals with analysis and presentation of interview findings under chapter seven.

6.15 ETHICAL CONSIDERATIONS

Ethical issues are given a lot of importance in social science research. Several issues such as voluntary participation, no harm to the participants, ensuring anonymity and confidentiality, avoiding deception and fair reporting has been emphasised as some important ethical considerations in social science

research (Babbie, 2009). Brief discussion on the due care taken in the present study is presented below.

According to Leedy, *et al.* (2005), there are a number of key ethical issues that protect the rights of research participants. These are protection from harm, informed consent, the right to privacy and honesty with professional colleagues.

The principle of *informed consent* requires that respondents are not forced to participate in research. This means that prospective research participants must be fully informed about the procedures and risks involved in research and must give their consent to participate. In this study, all participants were informed about the nature of the study and participation was on voluntary basis. Ethical standards also require that researchers not put participants in a situation where they might be at risk or harm as a result of their participation. Harm can be defined as both physical and psychological (*ibid.*).

In this study, the researcher followed two standards in order to help protect the privacy of research participants. First participants were assured that their responses will be treated confidentially and with anonymity of the respondents. Second, no person or firm will have access to their completed questionnaire. In addition, the researcher will report the findings *complete and honest* without any change in the respondents' response to support personal interests.

In general, the following ethical principles were adopted for this thesis from the works of (Terrell, 2012) by the researcher and have been adhered throughout the course of this study:

- **Voluntary Participation:** The major tenet of social science research is that participation in the research should be voluntary and no one is forced to participate in the research. As the firms participating in the survey had to fill a long questionnaire, they were briefed on the objectives of the research and assured of confidentiality of data to motivate them to participate voluntarily. The data was collected by making personal visits

to the firms and the firms not willing to participate and spend time were not included.

- **No Harm to the participants:** Unlike several social science researches no personal questions were asked to the respondents. The study focused on firm specific questions rather than those involving respondent's personal lives. Therefore, the present research had no questions that lead to embarrassment/harm to the participants.
- **Anonymity and confidentiality:** In the present study, the respondents were assured of confidentiality of the data provided by them. However, since the data was collected through personal interview by visiting their firms and not through mail survey, identity of the respondent was revealed to the researcher, anonymity was however ensured through use of codes. Moreover, respondents were assured that the data would only be used for generalisation of the observation and no specific mention of their company name or brand would be revealed in the research report or in results. This practice was followed religiously to ensure the interest of the respondents participating in the research.
- **Deception:** While visiting the companies, the researcher provided all the identity information and affiliations to reveal his identity and purpose of the visit to the respondents. The data were collected only after briefing the respondents about why and what data is required for the study and how it will be used.
- **Analysis and reporting:** The researcher had ensured that to the best of his knowledge, due care is taken for collecting and analysing data. The results reported are the outcome of the in-depth analysis.

Finally, each participating Managers/CEOs was contacted by the researcher to discuss the proposed study: the requirements of the participants during the study, the knowledge that participation in the study is voluntary, and participants can withdraw from the study at anytime. Confidentiality of all information and the knowledge that results of the study will be stored for a

period of time and will be shared with the participating firm. Each participating export managers was asked to sign "Permission to Participate letter". The data will be anonymous to protect the managers participating in the study. Data are kept in a password-protected file and eventually deleted after a reasonable period of time. Any physical copies of the data are suitably secured in a locked filing cabinet in the researcher's office.

6.16 CHAPTER SUMMARY

This chapter outlined the research paradigm, research methodologies, strategies and design used in the study, including procedures, participants, data collection tools, data collection and analysis methods, and data credibility issues. Accordingly, research design for this study was a sequential mixed method complementing Quantitative survey and qualitative case study. Analytical methods for both phases were presented with appropriate statistical techniques proposed to test research hypotheses.

Qualitative data were analysed through content analysis, pattern matching logic and triangulation technique. The findings were integrated and presented in chapter 8 along with appropriate research implications. Further it also briefly described the several stages involved in the design and development processes of the research in this study.

In terms of time horizon, the study used cross sectional design. Stratified random sampling and critical case purposive sampling methods were used to draw samples from target population of SMEs operating in Addis Ababa. The respondents are owner/managers of manufacturing SMEs in Leather and Leather Products Industry. The research instrument used was a structured questionnaire and interview schedule. The research instrument was pilot tested using 15 SMEs Managers. Reliability and validity of the research instrument are ensured and techniques used are discussed in the chapter. Data collected from 90 SMEs through survey were analysed using SPSS 20 and follow up

interview results were analysed using qualitative analysis methods. The following chapter presents presentation of results and findings of this study.

CHAPTER 7

PRESENTATION OF EMPIRICAL RESEARCH RESULTS & FINDINGS

7.1 INTRODUCTION

In the previous chapter, a detailed discussion on the research design and methodology applied was presented. This chapter presents results and findings of the empirical study. The findings are a synthesised combination of what respondents have answered in the questionnaire, what became clear from the interviews, literatures and the discussion organised around the topic. The chapter has been organised in two main sections. The first sections presents results obtained from questionnaire administered to survey participants selected through stratified random sampling. The second section deals with presentation of empirical findings obtained from case studies. Presentation of empirical findings in this chapter is organised according to the research questions as depicted in Chapter 1 and 6 of this study. The various data sets have been presented in tables, bar graphs and descriptive narrations. The chapter ends with chapter summary.

7.2 SURVEY RESPONSE RATE

The respondents were selected through stratified random sampling from Manufacturing SMEs operating in Leather and Leather goods industry in Addis Ababa. The total questionnaires distributed was 125, distributed from the sample size and 105 questionnaires were returned. Out of these returned questionnaires 90(85%) were appropriately filled in and returned while 15(14%) questionnaires were incorrectly completed and not used in the analyses. All questionnaire items were tabulated and description was given under each table. The figures presented in percent were rounded off to one decimal place. In addition to tables, relevant statistical graphs were also used to present the result of empirical data. Table 7.1 shows summary of response rate for this study.

Table 7.1: Response Rate of Questionnaire

Sample	125
Total Responses	105
Total Response Rate	96%
Unusable Responses	15
Unusable Response Rate	14%
Usable Responses	90
Usable Response Rate	85%

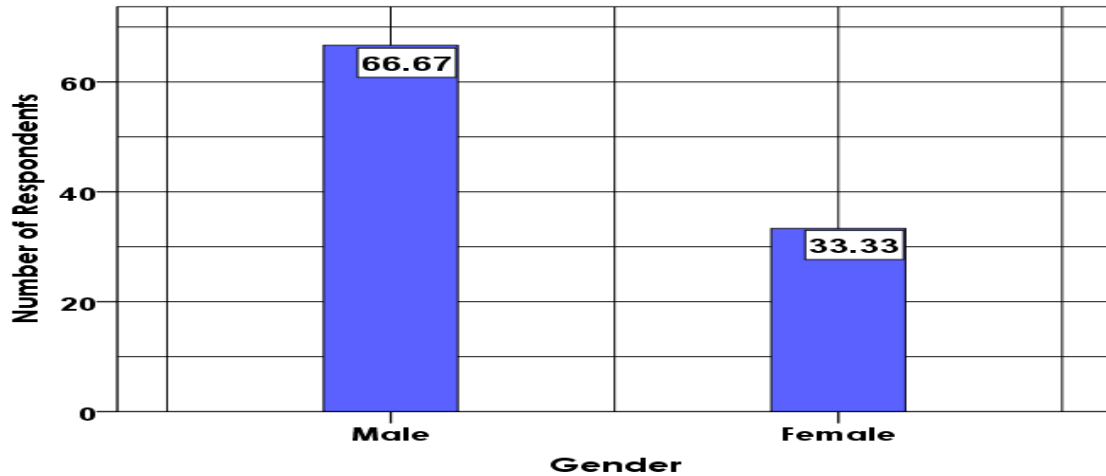
Source: Author's Own compilation (2015)

Table 7.1 above indicated that out of a total of 125 questionnaires administered, 105 questionnaires were returned to the researcher which constituted a return rate of 84%. However, out of the 105 questionnaires returned 90 (85%) were correctly filled in while 15 (15%) questionnaires were incorrectly completed. The incorrectly completed questionnaires were treated as unusable. This means that only 90 (85%) the questionnaires were used in this analysis. According to Welman, Kruger and Mitchell (2005), a response rate that is lower 50% constitutes a minority. But in this current study usable response rate of 85% which is >50, the researcher considered it the highest for meaningful statistical analysis and also for an acceptable interpretation, and decided to proceed to present the findings. The way the researcher administered the survey through drop off and pick-up technique and continuous follow up contributed for the high response rate of survey in this study. The above useable response was used in all analyses conducted in this study and the following are the results.

7.3 DESCRIPTIVE RESULTS AND FINDINGS

SPSS for Windows version 20 was used to summarise the analysis of the demographics of respondents as shown in Figures 7.1 to 7.5 in the following pages.

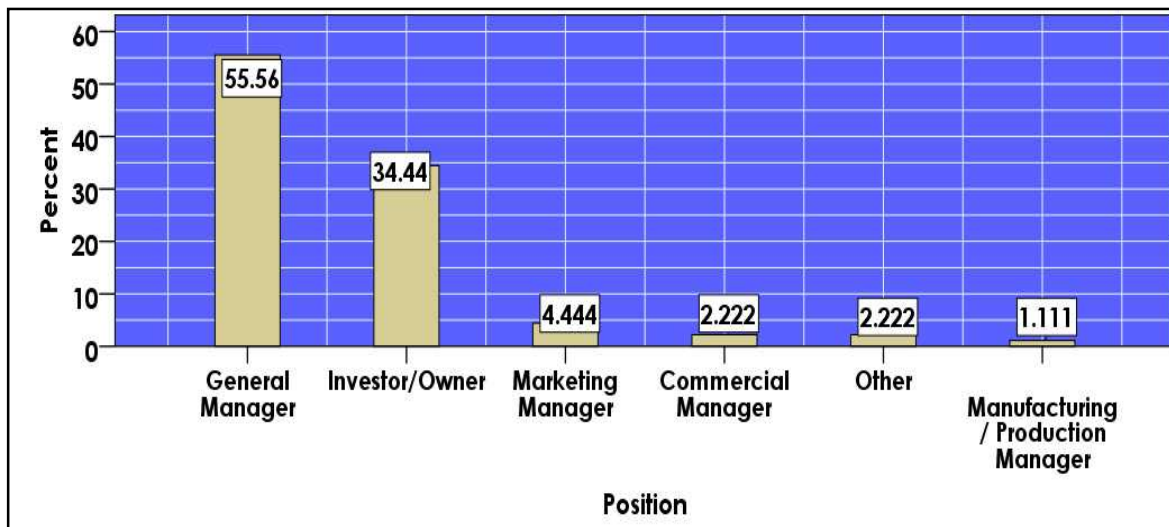
Figure 7.1: Bar graph showing Gender Distribution of Respondents



Source: Analysis of Survey Data (2015)

As it can be observed from Figure 7.1, out of the total 90 respondents, 60(66.67%) were males and the remaining 30 (33.33%) were females.

Figure 7.2: Report on Staff Category of respondents

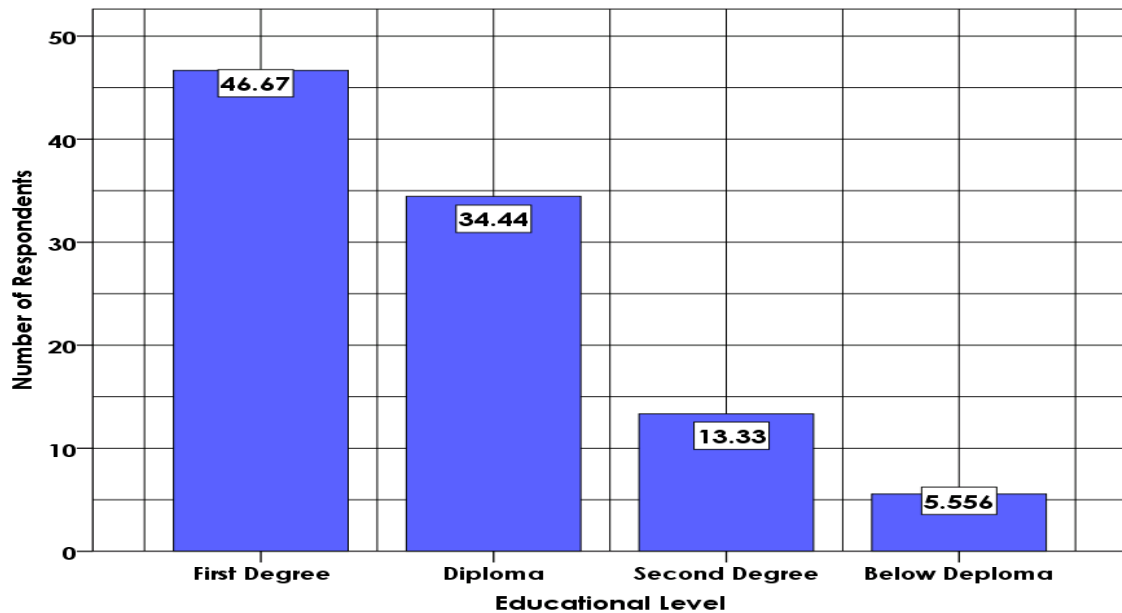


Source: Analysis of Survey Data (2015)

With regards to staff category in which respondents fall, Figure 7.2 demonstrates that 50 (55.56%) of respondents fall under general manager, 31 (34.44%) fall under Investor/owner, and 2 (4.4%) fell under marketing manager and the same number of respondents represent commercial manager. This is consistent with

the fact that most SMEs were managed by the owner and some are managed by general managers.

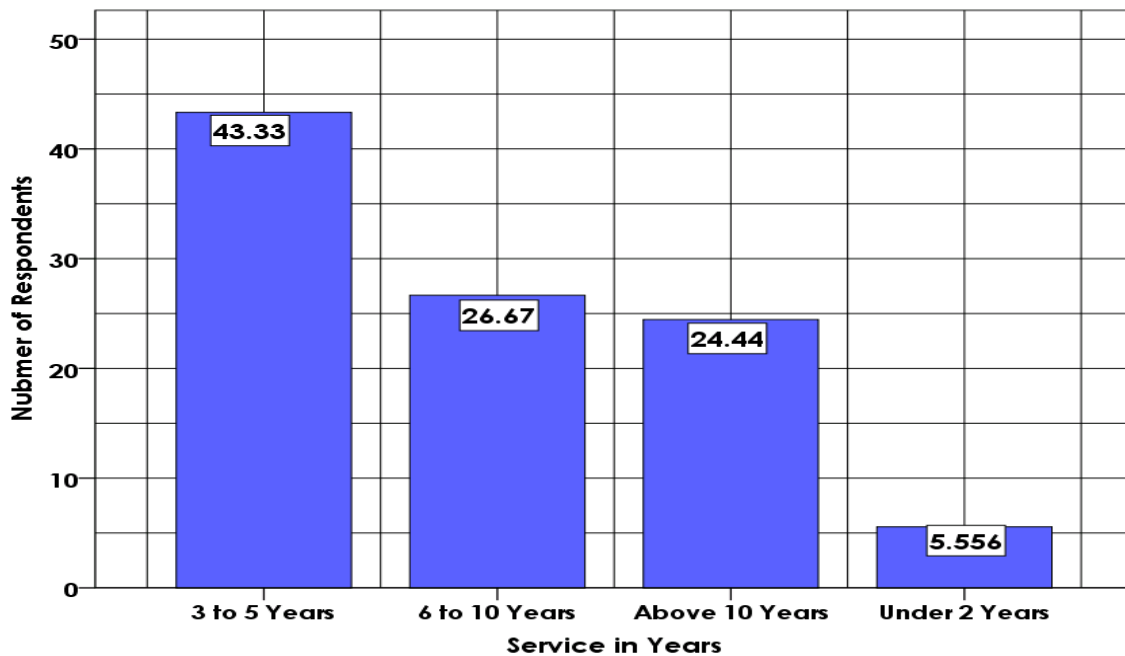
Figure 7.3: Report on the Level of Owner/Manager's Education



Source: Analysis of Survey Data (2015)

The study sought to find the level of education of the respondents so as to be sure that those who responded had basic level of intellectual capacity to understand issues related to factors that determine internationalisation process of SMEs. This would give credibility of their answers. Figure 7.3 Shows overall educational level of Owner/managers of studied SMEs. As per the data, the majority of respondents, which is 42(46.67%) were degree holders, 31(34.44) were diploma holders, 12(13.33) reported that they are second degree holders and the remaining 5(5.56%) respondents education level was under diploma status. This outcome simply confirms that the respondents had intellectual qualification and know-how to boost their ability to give informed responses as concerning the factors that determine and hinder internationalisation of manufacturing SMEs in Ethiopia.

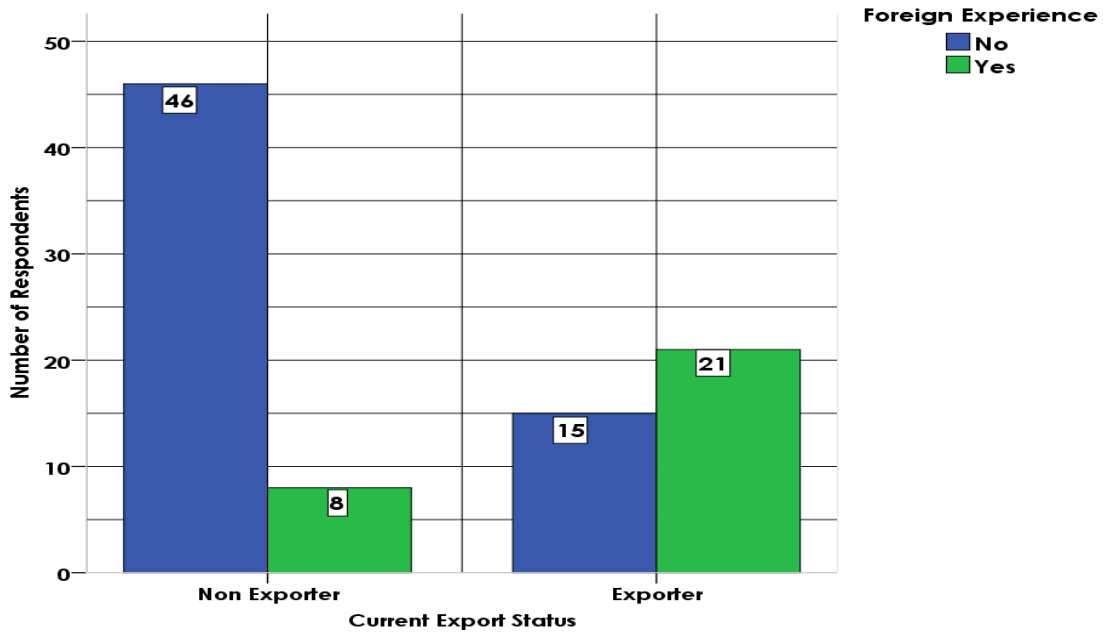
Figure 7.4: Report on Tenure of Managers in their current position



Source: Analysis of Survey Data (2015)

Figure 7.4 illustrates the length of time in years since SMEs owners/managers established or join the company. Consequently, the data revealed that from the total sample respondents 39 (43.33%) stated that they served for 3 to 5 years, 24 (26.67%) served for 6 to 10 years, while 22 (24.44%) of respondents found to be in the company for more than 10 years and the rest 5 (5.56%) responded that their tenure period is less than two years. The result shows quite a big percentage (94.44%) of the respondents had in the leather industry for at least three years. This gives a clear picture of how most of the respondents' answers came from an informed position and this in turn gave credibility to the findings of the study given the background information the respondents might have had about factors influencing internationalisation process of manufacturing SMEs in Ethiopia.

Figure 7.5: Report on Past international experience of Managers/owners



Source: Analysis of Survey Data (2015)

Figure 7.5 shows past international experience of SMEs owners/managers. It was found out that 46(85.2%) non exporting SMEs manager/owners have had no prior experience of work in overseas country while, 8(14.8%) of them replied that they have some past experience, on the other hand 15(41.7%) exporting SMEs managers have no past international experience whereas 21(58.3%) of them have had past experience in foreign countries.

7.4 REPORT ON PROFILES OF SMEs

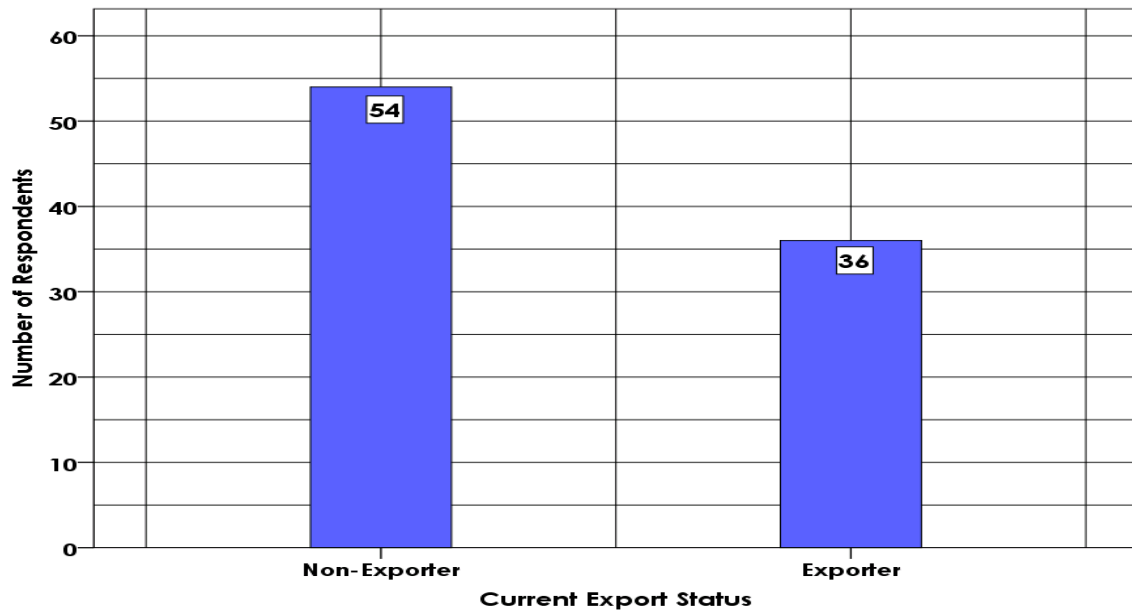
The following section presents descriptive analyses of results with respect to characteristics of exporting and non-exporting SMEs. Where appropriate, cross analysis was made to compare responses of exporting and domestic oriented SMEs.

7.4.1 REPORT ON CURRENT EXPORT STATUS OF TARGET SMES

The analysis of the acquired data of 90 Ethiopian SMEs shows that 36 firms were internationally active, whereas 54 of them were operating only in the domestic

Ethiopian market at the time of data gathering for this study. Figure 7.6 depicts the result.

Figure 7.6: Internationalisation Status of Studied SMEs



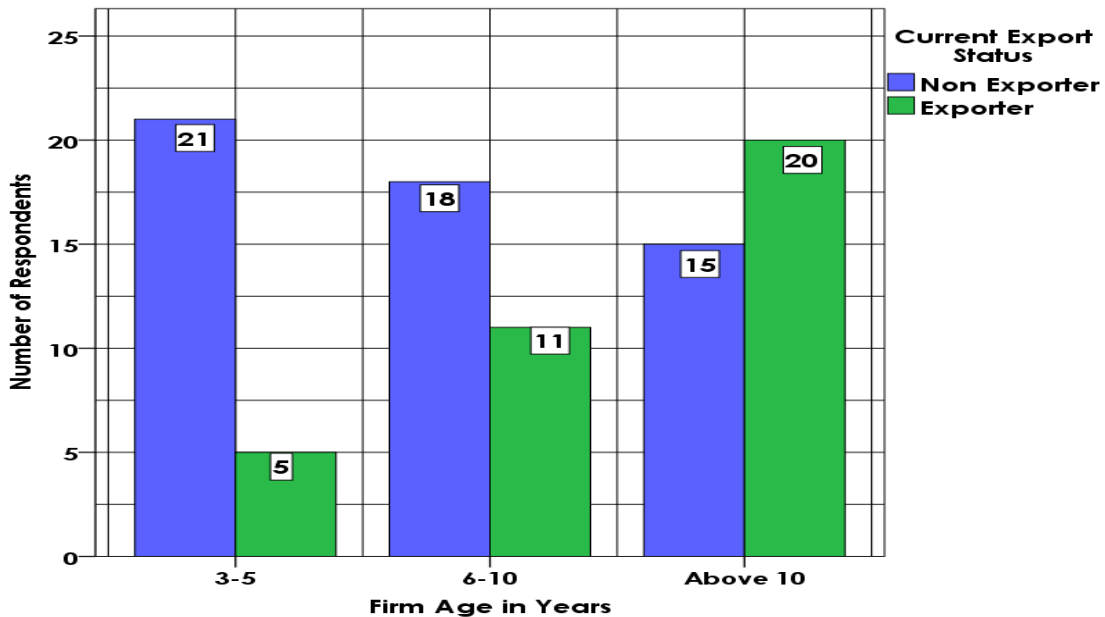
Source: Analysis of Survey Data (2015)

Figure 7.6 indicates that there are 36(40%), exporters and 54(60%) non-exporting SMEs in the sample. The sample had unequal representation from the SMEs of exporting and non exporting firms in one prime industry sector of Ethiopia. The sample composed of SMES from sub-sectors such as tannery, leather shoes, footwear, leather articles and garments. Due to the fact that internationalisation is a recent phenomenon especially for small and medium sized manufacturing firms in Ethiopia, the majority of respondents were non-exporting SMEs.

7.4.2 REPORT ON RESULTS OF FIRM AGE

Fig 7.7 depicts the age structure of exporting and non-exporting SMEs. Dividing SME's into age-groups reveals a little variation between internationally active and domestic oriented SMEs.

Figure 7.7: Report on Firm Age in terms of Year of Establishment



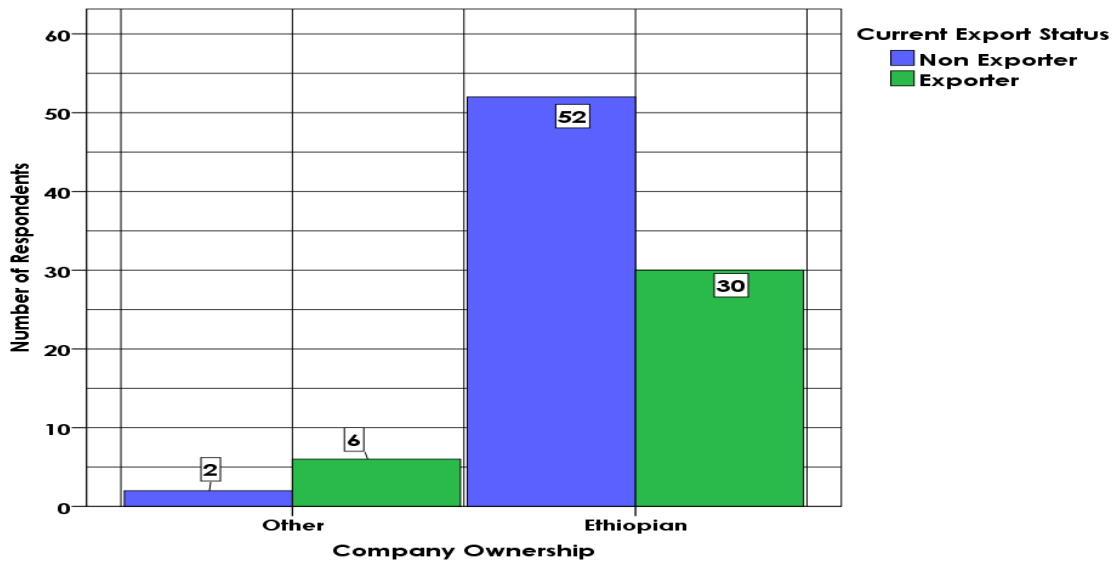
Source: Analysis of Survey Data (2015)

Figure 7.7 revealed that 21 (23.3%) of non-exporting and 5 (5.6%) exporting SMEs fell in the age range of 3-5 years. As it can further be gleaned from Figure 7.7, 18 (20%) of non-exporting and 11 (12.2%) of internationally active SMEs in the sample reported that they belonged to the age range of 6-10 years. The remaining group of respondents having 15 (16.7%) of non-exporting and the majority of exporting SMEs (22.2%) belonged to age range of >10 years. Inferential statistical result in Table 7.9 on page 294, revealed positive association between firm age and international involvement of firms.

7.4.3 REPORT ON OWNERSHIP STRUCTURE OF STUDIED SMES

Figure 7.8 depicts the distribution of studied firms by their ownership types. In the distribution of respondent firms by their ownership types, the data revealed that the majority of non-exporting SMEs were Ethiopian owned proprietary companies 52 (57.8%) only 2 (2.2%) were owned by non-Ethiopians. On the other hand, 30 (33.3%) of exporting SMEs were established and owned by Ethiopians while 6 (6.7%) of them are owned by non-Ethiopians.

Figure 7.8: Report on Ownership Structure of Target Firms



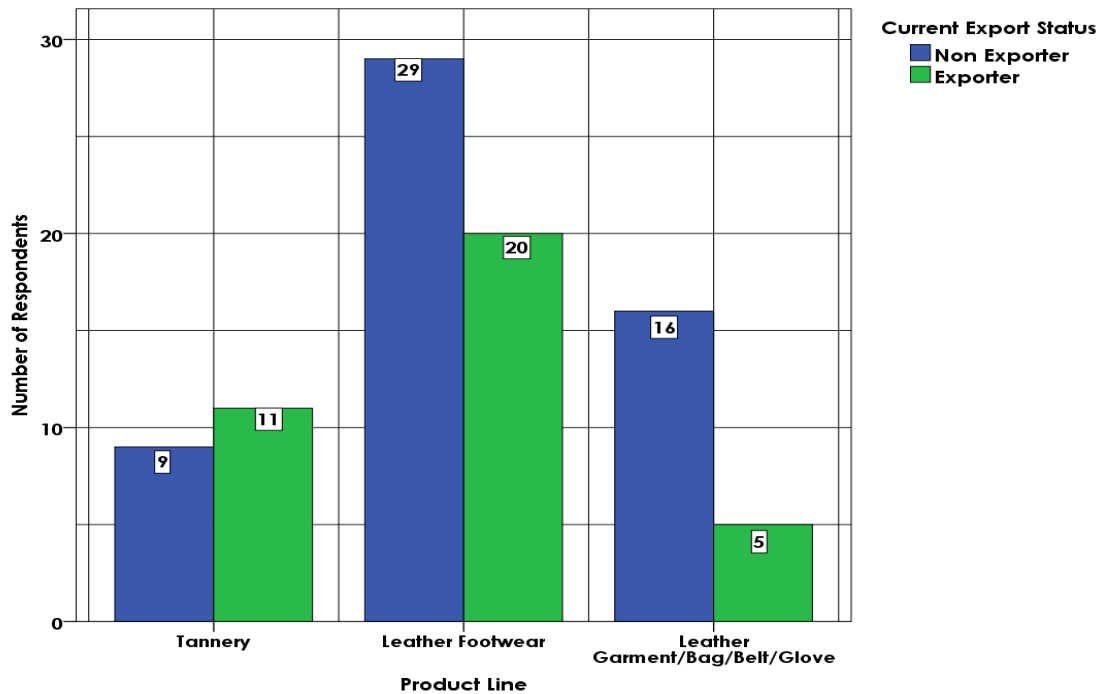
Source: Analysis of Survey Data (2015)

The result depicted in Figure 7.8 was further evaluated through correlation analysis, as in Table 7.10, p.295, and the inferential statistical analysis shows existence of positive relationship between SMEs ownership by non-Ethiopians and the likelihood that SMEs might be active in internationalisation.

7.4.4 PRODUCT LINES OF TARGET SMEs UNDER LEATHER INDUSTRY

Figure 7.9 shows the classification of studied SMEs based on their sub-sector in terms of product lines in Leather and Leather Products Industry. The respondents were asked to mention their business sector to study the diversification of the respondents in terms of business sectors and to manage whether all the sub-sectors under the leather industry was proportionally represented.

Figure 7.9: Surveyed SMEs Business Sub-Sectors in the Leather Industry



Source: Analysis of Survey Data (2015)

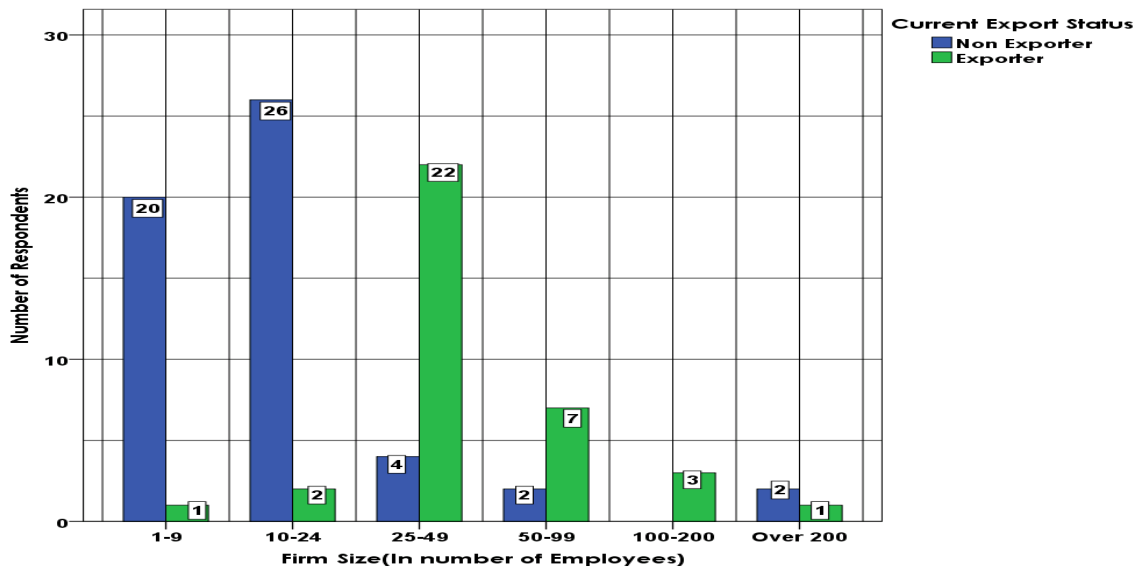
Figure 7.9 shows that there are significant differences between internationalised and domestic SMEs with regard to the specific product lines they manufacture even if all belongs to a single Industry. Majority of the exporting SMEs (29%) belongs to the leather footwear sub-sector and the leather goods sub-sector finds itself as least exporting group in the studied industry. The response distribution is quite reasonable in relation to the proportion of the questionnaires which were sent. The composition of the respondents' response rate is also was helpful in finding the real challenges of the internationalisation activities of the SMEs which was discussed and presented later on in this chapter.

7.4.5 REPORT ON SIZE COMPOSITION OF TARGET FIRMS

The bar chart provided by Figure 7.10 shows the size structure (according to their number of employees) of internationally active and domestic SMEs. Exporting firms seem to be bigger in terms of the number of employees than their domestic counterparts. Obviously, there are a higher proportion of

medium-sized companies among exporting firms (67.8%) than among non-exporting ones (23.2%). The median number of employees of the two groups differs accordingly. The median of the international SMEs lies at 52.5 employees, whereas that of non-exporting firms (23 employees) is much lower.

Figure 7.10: Firm Size Expressed in terms of Number of Employees



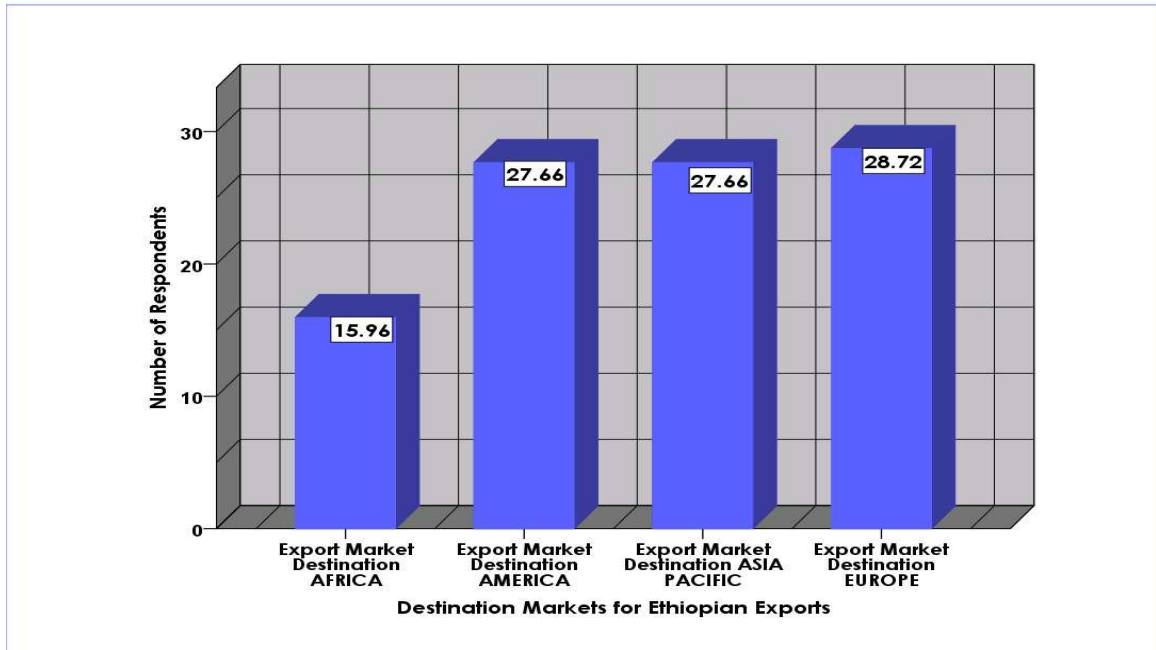
Source: Analysis of Survey Data (2015)

Further analysis of the relationship between internationalisation and size of SMEs was conducted using Chi-square test of independence. The implied relationship was confirmed by the strong, highly significant, positive correlation between the firm's state of internationalisation and its number of employees as presented in Table 7.8 see page, 293.

7.4.6 MOST IMPORTANT DESTINATION MARKETS FOR EXPORTING SMEs

The bar chart provided by Figure 7.11 depicts the most important geographical markets for internationally active firms participated in the survey. The result has been summarised in Fig 7.11 in the following page.

Figure 7.11: Export Destination of Currently Exporting Firms



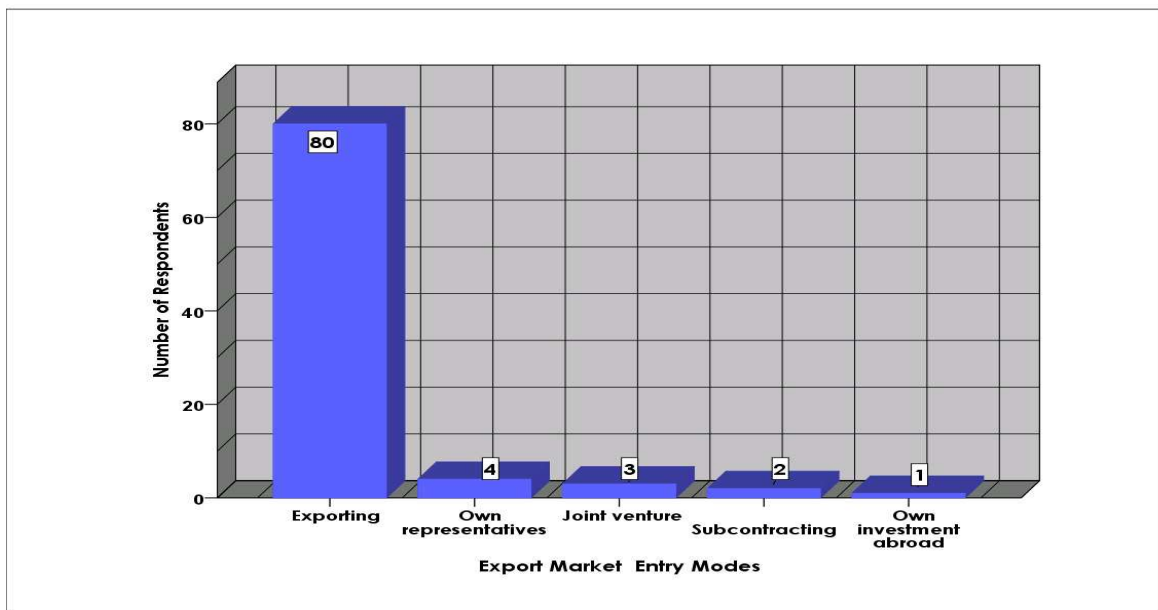
Source: Analysis of Survey Data (2015)

As it can be seen in Figure 7.11, the best geographical market in terms of their sales is found to be Europe, which is represented by 28.72%, the remaining of the identified continents accounted for 27.66% for North America, and the same number for Asia Pacific and the rest, 15.96%, were mentioned as Africa. However, there was a difference between the findings obtained from Secondary sources (Government publications and reports of different organisations) as to the most important export market destination for Ethiopian exports. It is necessary to highlight that, most firms can adjust their strategy to meet the needs of their best market and be able to compete in the industry that they are engaging. Those markets which are not identified as most important markets can be an opportunity for SMEs to investigate the business opportunity and explore needs for their export and enhance their internationalisation involvement meaningfully. Detailed discussion was made in light of this result in light of the theoretical framework of this study (See Chapter 8).

7.4.7 INTERNATIONALISATION MODES OF ETHIOPIAN SMES

As one of the objectives of the investigation of this study was to examine the pattern of Ethiopian SMEs Internationalisation, it was imperative to analyse the particular forms of the internationalisation entry modes of Ethiopian SMEs. The result was integrated with the actual state of internationalisation which was presented in the preceding section. Respondents were asked to mention not only internationalisation strategy they are currently following but also to mention alternative modes as perceived by respondents. Figure 7.12 presents the result of the empirical survey regarding the forms of Ethiopian SMEs internationalisation activity.

Figure 7.12: Internationalisation Modes of Ethiopian SMEs



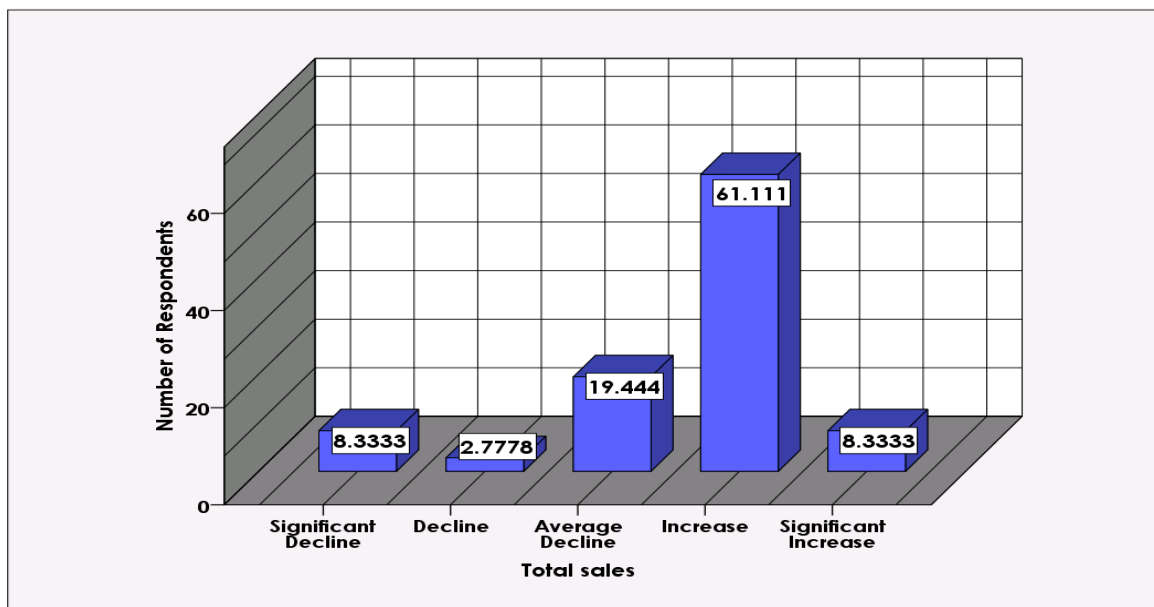
Source: Analysis of Survey Data (2015)

Figure 7.12 indicates that the overwhelming majority (approximately 88.9%) of Ethiopian SMEs used exporting as best alternative modes of international market entry. The dominance of exporting as the main form of Ethiopian SMEs' international activity is confirmed both by survey result and interview findings conducted. Respondents also mentioned other forms of entry as potential alternative, however the number was insignificant.

7.5 EXTENT OF ETHIOPIAN SMES' EXPORT PERFORMANCE

In order to understand the extent to which exporting SMEs are performing in international operations, exporters were asked to rate the level of their performance with respect to total sales, export sales and profitability due to exporting. The researcher used subjective measures of export performance due to the fact that most firms were not willing to give exact financial related figures. Thus, respondents were asked to rate whether their respective firm's total sales, export sales and profitability due to exporting had been declining or increasing in previous years on five point Likert Scale ranging from Significant decline(1) to Significant increase(5). Figures 7.13,14 and 15 summarise the result of descriptive analysis.

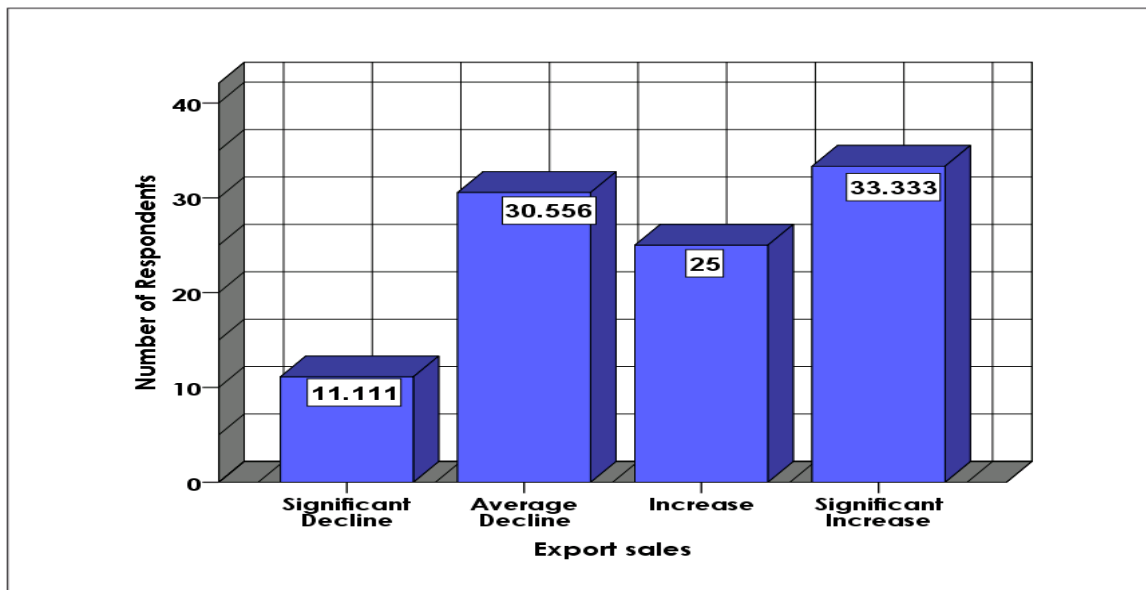
Figure 7.13: Subjective Evaluation of Total Sales of Exporting SMEs



Source: Analysis of Survey Data (2015)

A glance at total sales data in Figure 7.13 reveals that, 61% of respondents replied that their firm's total sales increased in recent years. Nevertheless, 29% of exporters revealed that their firm's total sale in recent years showed declining figures.

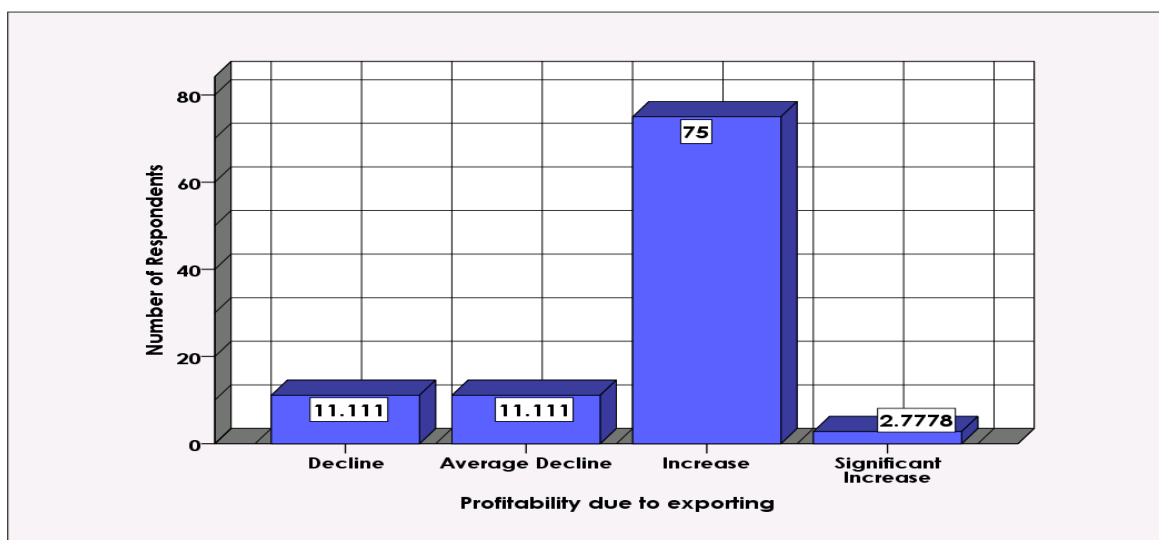
Figure 7.14: Subjective Evaluation of Export sales of Exporting SMEs



Source: Analysis of Survey Data (2015)

As shown in Figure 7.14 in response to ratings of export sales, respondents were highlighted that their firm's performance as measured by export sales is in good condition on average. Accordingly, 30.56%, 25% and 33.33% of respondents replied that the level of their firm's export sales showed average decline, increase and significant increase.

Figure 7.15: Subjective Evaluation of Profitability due to Exporting



Source: Analysis of Survey Data (2015)

Figure 7.15 revealed that significant number of respondents (75%) confirmed that their firm's profitability due to exporting is increasing besides prevailing challenges faced by respective SMEs. However, 22.22% replied that their profitability declined.

7.6 REPORT ON EXPORT MOTIVATIONS FOR ETHIOPIAN SMEs

From the exploratory phase and literature reviews, 21 internal and 36 external stimulifactors were identified and included in the final questionnaire. SPSS for Windows Version 20 was used to analyse the data. The statements were based on a Lickert Scale of 1 (least important) to 5 (very important). The results were summarised in order to give an indication on whether the respondents accepted or rejected the statement. Respondents who scored 1 and 2 were added together to indicate that the factor is least important. Respondents having scored 3 were regarded as average, thus treated as being neutral. Respondents who scored 4 and 5 were added together to indicate the factors are important. The following Tables (Tables 7.2 and 7.3) show results of descriptive statistical analyses.

Table 7.2: Internal Internationalisation Stimuli of Ethiopian SMEs (frequencies) of Exporting and Non-Exporting SMEs

Variables Measuring Internal Stimuli	Exporting SMEs %				Non-Exporting SMEs %		
	LI	AI	IM		LI	AI	IM
Utilisation of special managerial talent/skills/time	0	10	31		9	21	42
Hire skilled human resources	0	5	45		0	1	49
Management's international experience and knowledge	0	15	40		20	7	40
Managers export orientation	9	8	40		44	33	37
Management strong social network	0	13	31		11	8	46
Management's interest in internationalization	0	0	42		37	14	54
Stagnation/decline in domestic sales/profits	4	9	25		9	13	26
Possession of financial competitive advantage	0	17	41		0	28	32
Potential for extra growth from exporting	4	22	37		17	13	32
Potential for extra sales/profits from exporting	19	9	29		37	0	31
Accumulation of unsold inventory/overproduction	32	0	9		71	13	28
Smoothing production of a seasonal product	26	18	18		35	21	36
Achievement of economies of scale	13	19	30		5	14	12
Availability of unutilised production capacity	0	15	35		33	2	22
Possession of proprietary technical knowledge	15	1	23		5	40	32
Possession of a unique/patented product	20	0	32		16	17	13
Extending lifecycle of domestic products	4	22	27		33	21	32
Ability to easily adapt marketing for foreign markets	5	21	42		24	5	12
Availability of unique product	20	13	29		4	23	9
Possession of a marketing competitive advantage	15	17	29		24	23	33
Increasing competition in home market	4	16	16		0	25	25

Source: Analysis of Survey Data (2015)

5=Very Important (VI); 4=Important (IM); 3=Average Important (AI); 2=Some Important (SI) and 1=Least Important (LI)

Table 7.2 shows frequencies and percentages of exporting and non-exporting SMEs that rated the 21 factors as least important, somewhat important, important and very important factors in stimulating internationalisation of SMEs

in Ethiopia. It is observed that out of 54 non-exporting SMES, 54% considers management's interest in internationalisation, 49% considers skilled human resource as important factor, 46% considered management strong social network, 42% rated utilisation of special managerial talent/skills/time as important internal stimuli, 40% responded that management's international experience and knowledge makes a difference to be internationally active firm whereas 37 % stressed the importance of manager export orientation as one of the critical elements to initiate international operation.

On the other hand, exporting SMEs respondents replied that the main reasons for entering foreign markets were due to management's interest in internationalisation (42%) possession of a unique product (32%). It is also important to note that skilled human resource was one of the top three internal stimuli factors mentioned by exporting SMEs as shown in Table 7.2.

Another interesting finding from this research was that managers export orientation (40%) and management strong social network (31%) were mentioned by the exporting SMEs as major internal factors motivated their decision to initiate internationalisation. As it was evidenced by 37% and 46% of non-exporting respondents, respectively, it is not surprising to note here that the non-exporting SMEs also cited this particular reason as a motivation for going global, as it was evidenced by 37% and 46% of non-exporting respondents respectively.

Table 7.3 shows frequencies and percentages of SMEs that perceived external motivating factors as the least important to very important in triggering their decision to start internationalisation activities. It can be observed that out of 54 non-exporting firms, 33% perceived inadequate demand in the home market as external factors that motivate firms to go global. It is also found that 40% of non-exporters have indicated that exploitation of new market, 41% encouragement by industry, trade and other associations and increasing positive attitude towards Ethiopian products 33% are the most important external motivating factors of firm internationalisation in Ethiopia.

Table 7.3: External Internationalisation stimuli of Ethiopian SMEs (frequencies) of Exporting and Non-Exporting SMEs

Variables Measuring External Stimuli	Exporting SMEs %				Non-Exporting SMEs%		
	LI	AI	IM		LI	AI	IM
Unstable business environment in domestic market	26	6	14		30	27	11
Inadequate demand in the home market	16	17	11		22	11	33
Need to reduce risk of domestic market	6	28	8		14	33	16
Possibility of reducing power of domestic customers	22	20	2		44	9	18
Unfavorable state of domestic economy	42	4	18		17	26	36
Favorable foreign exchange rates	2	12	24		29	14	12
Patriotic duty of local firms	12	8	44		9	33	44
Exploitation of new market	2	3	33		24	0	40
Development of global networks	2	0	8		32	3	5
Cultural similarity	13	18	14		17	21	41
Unexpected international opportunity	2	17	25		20	24	26
Geographical proximity to foreign markets	18	3	42		17	21	32
Brand acceptance in foreign market	12	0	26		22	7	46
Meeting international quality standards	2	0	30		20	8	25
Possession of information on foreign markets	2	4	43		35	8	32
Market demand for the goods abroad	2	12	28		28	19	27
Good economic situation of clients' country	2	13	23		18	8	24
Proximity to international ports/air ports	2	6	31		28	17	35
Reduction of domestic institutional constraints	2	27	21		10	21	23
Contact from the chamber of commerce	2	12	5		22	18	30
Encouragement by government agencies	7	12	23		0	16	30
Access to Government export subsidies	2	1	34		31	14	29
Relaxation of foreign rules and regulations	2	1	46		29	13	35
Reduction of tariffs/non-tariffs	2	0	28		26	12	24
Encouragement by industry, trade	2	0	32		15	7	41
Encouragement by banks /financial institutions	12	18	46		28	9	32
Existence of foreign sales agents	12	9	13		30	20	5
Encouragement by brokers/agents/distributors	2	9	15		36	19	30
Intense domestic competition	17	21	30		19	8	14
Competition with foreign firms	2	26	13		49	13	30
Initiation of exports by domestic competitors	12	13	26		38	6	27
Entry of a foreign competitor in home market	7	14	31		45	2	19
Gaining foreign expertise	10	3	28		30	12	34
Receipt of unsolicited orders	12	17	23		31	18	12
Receipt of orders after participation in trade fairs	17	2	12		42	2	19
Positive attitude towards Ethiopian products	13	6	8		11	27	33

Source: Analysis of Survey Data (2015)

Another very important aspect in the decision to go global were loose foreign rules and regulations in certain foreign markets (46%), encouragement by banks /financial institutions (46%), patriotic duty of local firms (44%), possession of exclusive information on foreign markets (43%), geographical proximity to foreign markets (42%); access to government export subsidies (34%); exploitation of new market (33%); encouragement by industry, trade and other associations (32%); were highly rated by internationally active SMEs as important and very important motivators in their decision to go global.

7.6. 1 RESULTS PERTAINING TO ENTREPRENEURIAL ORIENTATION

The empirical survey also sought to find out the extent to which exporting and non-exporting SMEs possess characteristics of international entrepreneurial orientation. The items were measured on 5 point Likert Scale and respondents were asked to rate their level of agreement ranging from Strongly disagree(1) to Strongly Agree(5). Table 7.4 summarised the result of descriptive analysis.

Table 7.4: International Entrepreneurial Orientation level (frequencies) of Exporting and Non-Exporting SMEs

Entrepreneurial Orientation Variables	Exporting SMEs %			Non-Exporting SMEs %		
	D	N	A	D	N	A
Initiate changes to which our competitors' react	4	0	37	13	0	45
First to introduce new products/ services	4	0	30	7	0	41
We take a very competitive oriented approach	4	0	34	7	0	37
We consider new export markets to enter	4	0	38	45	13	35
Exporting should not wait for domestic demand	4	0	18	61	7	34
We are always alert in looking for export market information	4	0	43	67	7	46
The export market is risky business	26	0	15	46	11	16
Opportunities are greater than the risks	24	20	25	45	15	26
Accept temporary losses for long-term market share	11	0	37	46	11	28
We attend export market seminars and trade fairs	11	7	39	59	26	18
We develop new products for export market	4	0	42	68	24	29
The leader undertakes foreign visits for business	4	0	43	76	4	24
We encourage foreign visits for key staffs	4	0	43	72	4	46
Encourages language learning by key staffs	4	0	44	78	4	46
We are eager to learn about foreign markets	4	0	42	59	4	44
Seek to learn about foreign competitors	4	0	42	59	7	44
The leader has extensive foreign experience	4	0	24	56	13	31
Develops links with international business networks	4	0	38	68	13	44
Encourages foreign visitors to the enterprise	4	0	42	30	0	45

Source: Analysis of Survey Data (2015)

5=Strongly Agree (S.A); 4=Agree (A); 3=Neutral (N); 2=Disagree (D) and 1=Stronglydisagree (S.D)

Table 7.4, depicts a cross examination of the two groups of SMEs and revealed that majority of exporting SMEs agreed that they possess the expected entrepreneurial characteristics. On the other hand, it was found out that, out of 54 non-exporting SMEs, more than 75 % of them reported that they do not possess international entrepreneurial orientation characteristics. The data further revealed that non-exporters responded negatively to items measuring key

entrepreneurial characteristics such as innovativeness, pro-activeness and risk taking behaviour which was represented by 68 %, 67% and 46%, respectively.

7.7 REPORT ON INTERNATIONALISATION BARRIERS OF ETHIOPIAN SMEs

The samples of SMEs owners/managers were asked to what extent various internal and external factors acted as a barrier in initiating and expanding export activities. After the pilot study, 31 internal export barriers and 33 external barriers were identified and were included in the final questionnaire. As discussed in Chapter 4 SMEs may encounter barriers at any stages of their internationalisation process. In this study however, respondents were asked to rate barriers hindering initiation of internationalisation (perceived barriers) and barriers encountered in the course of international operation (actual barriers).

The items were measured on a five-point Lickert Scale and respondents were asked to rate the list of internal and external export barriers ranging from Least Obstacles (1) to Major Obstacles (5). The results were summarised because the preliminary analysis showed that there were few scores on the two extremes of least obstacles and major obstacles. Accordingly, respondents who scored 1 and 2 were added together to indicate that the factor is least obstacle in hindering exporting. Respondents having scored 3 were regarded as average, thus treated as being neutral. Respondents who scored 4 and 5 were added together to indicate the factors are obstacles that hinder internationalisation of SMEs. The following Tables (Tables 7.5 and 7.6) show the result of frequency data and descriptive statistics for internal and external SMEs internationalisation barriers.

Table 7.5: Internal Export Barriers of Ethiopian SMEs (frequencies) of Exporting and Non-Exporting SMEs

Variables Measuring Internal Export Barriers	Exporting SMEs %				Non-Exporting SMEs %		
	LO	AO	OB		LO	AO	OB
Lack of knowledge about export markets	20	26	0		0	33	31
Lack of knowledge on export assistance	22	0	30		11	33	31
Difficulty in making customer contacts	18	11	18		10	23	33
Insufficient information about overseas market	19	13	13		10	32	23
Difficulties in gaining access to some data sources	23	10	15		25	11	35
Inaccessible Market Information	9	5	35		28	11	35
Lack of personnel trained to handle export	18	7	22		12	23	34
Lack of Managerial Capacity	14	2	34		23	33	23
Lack of managerial time to deal with exports	21	16	12		35	21	23
Lack of financial resources to finance exports	23	0	26		21	21	26
Shortage of working capital to finance exports	23	0	22		11	11	46
Lack of own internationally recognized brand	14	10	23		0	30	35
Lack of excess production capacity for exports	14	10	24		11	0	55
Lack of export skills	19	5	23		11	0	55
Difficulty in matching competitors' prices	18	10	18		36	0	39
Lack of knowledge on how exchange rates work	48	4	0		73	0	5
Difficulty in supplying inventory abroad	33	0	13		39	11	24
Difficulties in offering technical/after sales service	21	10	13		25	11	35
Difficulties in adapting export product design	33	0	15		30	10	34
Difficulties in developing new products for export	33	10	15		27	3	43
Unreliability in supply of raw materials	5	14	26		19	13	35
Narrow product lines/absence of diversification	10	18	18		23	3	42
Poor product quality	35	10	4		35	8	27
Actual product unsuitable for overseas markets	42	4	7		30	13	27
Challenges in meeting export packing standards	20	12	13		18	18	34
Difficulties in meeting product quality standards	37	6	4		15	29	27
Lack of new technology	17	16	15		11	8	49
Need to adapt promotional activity to export	15	4	30		11	11	45
Complexity of foreign distribution channels	5	23	16		39	21	13
Accessing export distribution	15	16	13		28	21	23
Lack of competitive price to customers in foreign markets	24	20	0		28	11	34

Source: Analysis of Survey Data (2015)

1=Least Obstacles (Lo);2=Some obstacles (So); 3=Average obstacles(Ao); 4=obstacles(o); 5= Major Obstacles(Mo).

From Table 7.5, it can be observed that exporting SMEs rated Inaccessible market Information (35%), lack of managerial capacity (34%), lack of knowledge on export assistance (30%); the need to adapt promotional activity to export (30%), unreliability in supply of raw materials (26%), lack of financial resources to finance exports (26%), and lack of knowledge about export markets (26%); were the major barriers to them.

A close examination of responses of non-exporting SMEs revealed that, lack of export skills (55%); lack of excess production capacity for export (55%); lack of new technology (49%), shortage of working capital to finance exports (46%); need to adapt promotional activity to export (45%), difficulties in developing new products for export (43%); and narrow product lines/absence of diversification (42%) were found to be major obstacles hindering initiation of export operation. From the result it is possible to infer that, many of the SME's remained neutral on some of the barriers, as they were unsure as to whether it was a true barrier to SME entry to foreign markets or not.

Table 7.6: External Export Barriers (frequencies) of Exporting and Non-Exporting SMEs

Variables Measuring External Export Barriers	Exporting SMEs %				Non-Exporting SMEs %		
	LO	AO	OB		LO	AO	OB
High cost of establishing an office in the foreign market	10	13	24		3	0	31
Difficulty in accessing wholesalers and retailers overseas	13	12	22		14	0	23
Difficulty in choosing a local representative abroad	13	10	25		27	11	35
Unfamiliar exporting procedures/paperwork	44	10	0		14	0	57
Inadequate communications with overseas customers	50	0	5		31	10	34
Complexity of export documentations	21	18	10		15	11	54
Slow collections of payments from abroad	39	13	0		27	23	23
Strict foreign rules and regulations	33	18	0		30	13	30
Different foreign customer habits/attitudes	19	29	0		14	22	33
Intense competition in foreign markets	10	0	37		0	0	68
Lack of acceptance of Ethiopian products	14	20	13		48	7	23
Complex government bureaucracy	8	10	28		42	0	34
Lack of Ethiopian governmental incentives	2	17	26		30	9	36
Inadequate government export incentives	2	12	30		27	23	45
Lack of financial assistance	25	0	25		15	0	56
Currency fluctuations	14	20	13		13	11	47
Cultural differences overseas	13	34	0		29	11	33
Inadequate exchange rate policies	8	15	23		13	23	34
Special customer requirements	22	0	9		0	0	53
Inadequate foreign network of the banks you work with	31	4	16		29	0	34
Quality requirement and standards in the target market	39	5	9		15	0	55
Poor/deteriorating economic conditions abroad	30	5	17		43	11	23
High Tariffs and non-tariffs barriers	45	0	9		28	11	34
Foreign government restriction	39	5	9		43	11	23
Political instability in foreign markets	13	10	24		58	11	12
Unfamiliar foreign business practices	50	0	5		29	12	33
Different socio-cultural traits	50	0	5		41	12	23
Language differences overseas	27	10	13		56	0	23
High transportation costs	22	10	18		28	11	65
Unavailability of warehousing facilities abroad	27	18	5		27	2	44
Difficulties in warehousing	39	9	5		56	0	23
High insurance costs	39	9	5		13	24	33
Poor infrastructure	22	13	13		0	17	50

Source: Analysis of Survey Data (2015)

As it can be observed from Table 7.6, exporting SMEs did agree that intense competition in foreign markets (37%), cultural differences overseas (34%), different foreign customer habits/attitudes (29%), complex government bureaucracy (28%) and lack of Ethiopian governmental incentives (26%), were external barriers they encountered while exporting. On the other hand non-exporting SMEs replied that, intense competition in foreign markets (68%), high transportation costs & shipping arrangements (65%), unfamiliar exporting procedures/paperwork (57%), lack of financial assistance (56%), quality requirement and standards in the target market (55%), poor infrastructure (50%), currency fluctuations (47%), and Inadequate government export incentives (45%) were hindering them from going global. Further comparison of these results against past similar works was conducted and the result was included in the discussion chapter of this study.

7.8 RESULTS RELATED TO PERCEIVED GOVERNMENT EXPORT INCENTIVES

In order to answer the fifth investigative question, both exporting and non-exporting SMEs were asked to rate what export incentives they perceived Ethiopian government could implement in order to help SMEs overcome the barriers that make entry to foreign markets difficult. The statements were based on a Likert scale of 1 (Least important) to 5 (Very important). Table 7.7 presents the result of descriptive analysis.

Table 7.7: Government Export support programs (frequencies) among Exporting and Non Exporting SMEs

Government Support Factors	Exporting SMEs %				Non-Exporting SMEs %		
	LI	AI	IM		LI	AI	IM
Initiatives that enhance working capital	0	0	77		39	0	51
Loans at a discounted rate	10	0	53		0	39	39
Seminars/events to share industry information	10	12	25		0	38	31
Online channels to obtain market updates	10	0	35		39	12	41
Trade publications, and consultancy advice	10	6	43		9	10	51
Market research or other internationalisation-related training workshops	10	13	43		0	13	51
One-on-one firm-specific market entry advice	10	25	20		0	13	50
Guidance/incentives to cultivate internationalisation capabilities	10	24	21		22	16	43
Access to overseas trade and related offices	10	6	35			16	48
Assistance with export procedures	10	28	18		39	0	51
Assistance to resolve cross-border business-to-business disputes	10	16	28		39	9	44
Help to resolve foreign economy bureaucracy	10	16	28		90	15	39
Trade fairs/missions to source for business leads	10	0	42		0	19	46
Assistance to develop capabilities	10	0	48		0	16	48
Assistance for local companies	10	19	24		0	3	58
Help to resolve logistics and transportation issues	10	0	67		0	0	61
Loans for working capital	10	0	34		0	0	61
Tax deductions on expenses incurred by exporters	10	0	39		0	0	60

Source: Analysis of Survey Data (2015)

5=Very Important (VI); 4=Important(IM); 3=Average Important(AI); 2=Some Important(SI) and 1=Least Important(LI)

As it can be observed from Table 7.7, initiatives that enhance working capital (77%), help to resolve logistics and transportation issues (67%), loans at a discounted rate (53%), assistance to develop capabilities (48%), market research or other internationalisation-related training workshops (43%), and trade fairs/missions to source for business leads (42%) were highlighted by exporting SMEs as an aspect that needed to be concentrated on by the

Government. On the other hand non-exporting SMEs suggested that all the factors indicated in Table 7.7 should be considered as important areas of Government export incentive programs. Contrary to the many suggestions made by both internationally active SMEs and their domestic counterparts for the Government to step in and alleviate some of the barriers that continue to hinder them when attempting to enter international markets, it is this researcher's opinion that the Government cannot alleviate all the barriers that hinder SMEs from going global. The government cannot do anything about the workings of foreign markets and the risk associated with the process of establishing a presence abroad.

7.9 CORRELATIONAL ANALYSIS

Non parametric statistics of Chi-square tests of independence and Spearman's Rank Order Correlation (ρ) coefficient were used to examine the relationship of variables measured on nominal and ordinal scale. The following sections summarised the results.

7.9.1 FIRM SIZE AND INTERNATIONALISATION

A cross-tabulation analysis was performed in order to assess the association between firm size measured in terms of number of employees and SMEs decision to start export operation. Results are presented in the following table:

Table 7.8: Cross tabulation representing firm size and internationalisation of SMEs

			Current Export Status		Total
			Non Exporter	Exporter	
No of Employees	1-9	Count	20	1	21
		% within No of Employees	95.2%	4.8%	100%
		% of Total	22.2%	1.1%	23.3%
	10-24	Count	26	2	28
		% within No of Employees	92.9%	7.1%	100%
		% of Total	28.9%	2.2%	31.1%
	25-49	Count	4	22	26
		% within No of Employees	15.4%	84.6%	100%
		% of Total	4.4%	24.4%	28.9%
	50-99	Count	2	7	9
		% within No of Employees	22.2%	77.8%	100%
		% of Total	2.2%	7.8%	10%
	100-200	Count	0	3	3
		% within No of Employees	0.0%	100.0%	100%
		% of Total	0.0%	3.3%	3.3%
	Over 200	Count	2	1	3
		% within No of Employees	66.7%	33.3%	100%
		% of Total	2.2%	1.1%	3.3%
Total	Count	54	36	90	
	% within No of Employees	60.0%	40.0%	100%	
	% of Total	60.0%	40.0%	100%	
Pearson Chi-Square value=54.932 df=5 Sig. (2-sided)= p=.000. Exact Sig. (2-sided)= .000					

Source: Analysis of Survey Data (2015)

As it can be seen from Table 7.8 that, out of 54 non-exporters, 32 per cent of them belonged to small group and 2 per cent of them are medium enterprises. The result also revealed that out of 34 exporting SMEs more than 70 per cent belongs to medium sized firms. As shown in Table 7.8 export involvement increases with size of the firm.

As shown in last row of Table 7.8, a chi-square test of independence was performed to examine the relation between firm size and export involvement. The relation between these variables was significant, $X^2(df=5, N = 90) = 54.932$, $p < .001$. The result revealed that, Firms of small size were less likely to show an interest in involving in internationalisation than were medium and larger sized

firms'. This finding further consolidates the findings in previous studies that reported firm size has a significant influence on export involvement of firms. In this study, it has been observed that as the size of the firm is higher, the internationalisation rate is higher than their proportion in the sample.

7.9.2 FIRM AGE AND INTERNATIONALISATION

A cross-tabulation analysis was performed in order to assess the dependency between firm age and internationalisation decision among SMEs. As it can be observed from Table 7.9, out of 54 non-exporting SMEs 80.8% fall in the age range of (3-5 years), 62.1% fall in the age range of (6-10), while the remaining 42.9% fall in the age range of (above 10 years). Even though the result revealed that, 57.1% exporters reported that they have been in operation for more than ten years, the figures in Table 7.9 indicates that the association between firm age and export involvement is not as such strong.

Table 7.9: Cross tabulation representing firm age and internationalisation of SMEs

			Current Export Status		Total
			Non Exporter	Exporter	
Firm Age	3-5	Count	21	5	26
		% within Company Age	80.8%	19.2%	100%
		% of Total	23.3%	5.6%	28.9%
	6-10	Count	18	11	29
		% within Company Age	62.1%	37.9%	100%
		% of Total	20%	12.2%	32.2%
	Above 10	Count	15	20	35
		% within Company Age	42.9%	57.1%	100%
		% of Total	16.7%	22.2%	38.9%
Total	Count	54	36	90	
	% within Company Age	60%	40%	100%	
	% of Total	60%	40%	100%	
Pearson Chi-Square Value=9.011 df=2Asymp. Sig. (2-sided)= .011					
Exact Sig. (2-sided)= .012					

Source: Analysis of Survey Data (SPSS output 2015)

The result of Pearson Chi-Square shows that χ^2 (df=2 N=90) =9.011, P = .011. This tells us that there is statistically significant association between firm age and

internationalisation involvement even if the association is not as such strong as shown in summary data presented in the above cross-tabulation table.

7.9.3 FIRM OWNERSHIP AND INTERNATIONALISATION

To determine whether there was a relationship between firm ownership type (Ethiopian owned, owned by others) and firm export involvement (exporting, non-exporting) among leather and leather goods manufacturing SMEs found in Addis Ababa, 90(34 exporter and 54 non-exporters) were categorised as Ethiopian owned or owned by foreigners. A cross-tabulation analysis was performed in order to assess the differences between exporters and non-exporters in terms of their ownership origin. Table 7.10 shows the result of statistical analysis.

Table 7.10: Cross tabulation representing firm ownership and internationalisation of SMEs

			Current Export Status		Total
			Non Exporter	Exporter	
Company Owner	Ethiopian	Count	52	30	82
		% within Company Owner	63.4%	36.6%	100%
		% of Total	57.8%	33.3%	91.1%
	Other	Count	2	6	8
		% within Company Owner	25%	75%	100%
		% of Total	2.2%	6.7%	8.9%
Total	Count	54	36	90	
	% within Company Owner	60%	40%	100%	
	% of Total	60%	40%	100%	
Pearson Chi-Square=4.482 Degree of freedom=1 Asymp. Sig. (2-sided) p=.035 Fisher's Exact Test p=.056					

Source: Analysis of Survey Data (SPSS output 2015)

As it can be gleaned from Table 7.10, 63.4% of non-exporting SMEs were found to be owned by Ethiopians, where as 25% fall within the category of joint ownership or purely owned by foreigners. Among exporting SMEs 36.6% owned by Ethiopians and 75% of them are owned by a person with foreign background. Further examination of Pearson's chi-square test results indicated that 50 % of cells had expected counts less than 5 which suggested existence

of an expected value warning that should be considered. Therefore, Fisher's Exact Test would be more appropriate to test the relationship between these two variables. As it can be seen in Table 7.10, a weak association between firm ownership and export involvement was found χ^2 (Fisher's Exact Test $p=.056$).

7.9.4 REPORT ON PAST EXPERIENCE AND FIRM INTERNATIONALISATION

To determine whether there was a relationship between owners'/managers' past international experience and firm export involvement cross-tabulation analysis with Chi-Square test of independence was conducted. A cross-tabulation analysis revealed that (Table 7.11), 27.6% of non-exporting SMEs managers/owners reported that they had foreign experience before joining or starting their current business while quite significant number of non exporters which was 75.4% reported that they have no prior international experience. In the same table, a glance at figures corresponds to exporting SMEs, 72.4% responded that they have prior experience overseas while 16.7% of them said that they had no past experience overseas. Summary result of cross-tabulation showed existence of association between international experience of SMEs managers/owners and export involvement of the firm.

Table 7.11: Cross tabulation representing foreign experience of owners/manager and internationalisation of SMEs

			Current Export Status		Total
			Non Exporter	Exporter	
Foreign Experience	Yes	Count	8	21	29
		% within Foreign Experience	27.6%	72.4%	100.0%
		% of Total	8.9%	23.3%	32.2%
	No	Count	46	15	61
		% within Foreign Experience	75.4%	24.6%	100.0%
		% of Total	51.1%	16.7%	67.8%
Total	Count	54	36	90	
	% within Foreign Experience	60.0%	40.0%	100.0%	
	% of Total	60.0%	40.0%	100.0%	
Pearson Chi-Square 18.731 Degree of freedom=1 Asymp. Sig. (2-sided) p=.000.					

Source: Analysis of Survey Data (SPSS output 2015)

As it can easily be gleaned from last row of Table 7.11, a Chi-Square test of independence result revealed existence of significant association between prior experience of SMEs managers/owners and initiation of export activities, $\chi^2(1, N=90)=18.731$, $p<.001$.

7.9.5 INTERNATIONAL ORIENTATION AND FIRM INTERNATIONALISATION

Spearman's Rank Order Correlation (rho) coefficient was employed for measurement of relationships between SMEs Managers' international orientation and export involvement. Table 7.12 displays the result which shows that there is relationship between these two variables.

Table 7.12: Correlation Measures between Managers' Export Orientation and Internationalisation

			Managers export orientation	Current Export Status
Spearman's rho	Managersexport orientation	Correlation Coefficient	1.000	.619**
		Sig. (2-tailed)	.	.000
		N	90	90
Recent Exp Status	Recent Exp Status	Correlation Coefficient	.619**	1.000
		Sig. (2-tailed)	.000	.
		N	90	90

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Analysis of Survey Data (2015)

As it can be seen from Table 7.12, the relationship between international orientation of managers (as measured by 5 point scale) and export decision (as measured by dichotomous scale) was investigated using non-parametric statistic of Spearman's Rank Order Correlation (rho) coefficient. Preliminary analyses were performed to ensure no violation of the assumptions of non-parametric analysis. The result revealed that there is a strong, positive correlation between the two variables [$r=.619$, $n=90$, $p<.0005$], with high levels of export orientation associated with the likelihoods of SMEs to initiate export involvement.

7.9.6 REPORT ON KNOWLEDGE AND FIRM INTERNATIONALISATION

Spearman's Rank Order Correlation (rho) coefficient was employed for measurement of relationships between SMEs Managers' internationalisation knowledge and skills and decision to start export operation. Table 7.13 displays the result of statistical analysis.

Table 7.13: Correlation Measures between Managers' Knowledge and skills and Internationalisation

			Managers internationalisation knowledge and skills	Current Export status
Spearman's rho	Managers internationalisation knowledge and skills	Correlation Coefficient	1.000	.501**
		Sig. (2-tailed)	.	.000
		N	90	90
	Current export status	Correlation Coefficient	.501**	1.000
		Sig. (2-tailed)	.000	.
		N	90	90

** Correlation is significant at the 0.01 level (2-tailed).

Source: Analysis of Survey Data (2015)

Table 7.13 depicts that, internationalisation knowledge and skills of managers/owners positively influence SMEs export initiation. Preliminary analyses were performed to ensure no violation of the assumptions of non-parametric analysis. The result revealed that there is a strong, positive association between internationalisation knowledge and SMEs propensity to export [$r=.501$, $n=90$, $p<.0005$], with high levels of internationalisation knowledge associated with probability of SMEs to start exporting.

7.9.7 MANAGERS' SOCIAL NETWORK AND INTERNATIONALISATION

Spearman's Rank Order Correlation (rho) coefficient was employed for measurement of relationships between SMEs Managers' level of networking and

SMEs propensity to export. Table 7.14 shows the result of non-parametric statistical analysis.

Table 7.14: Correlation Measures between Managers' Strong Social Network and Internationalisation

		Management strong social network	Current export status
Spearman's rho	Management strong social network	Correlation Coefficient	1.000
		Sig. (2-tailed)	.548**
		N	.000
	Current export status	Correlation Coefficient	90
		Sig. (2-tailed)	90
		N	.000

** Correlation is significant at the 0.01 level (2-tailed).

Source: Analysis of Survey Data (2015)

As it can be observed from Table 7.14, the relationship between networking capability of managers (as measured by 5 point scale) and SMEs propensity to export (as measured by binary scale) was investigated using non-parametric statistic of Spearman's Rank Order Correlation (rho) coefficient. The result revealed that there is a strong, positive relationship between social network of managers'/owners' of SMEs [$r = .548, n = 90, p < .001$], with high levels established strong network associated with active involvement of SMEs in internationalisation involvement.

7.10 REPORT ON FACTOR ANALYSIS RESULTS

An exploratory factor analysis was used to reduce the items so as to get manageable dimensions of export stimuli factors and export barriers factor. The objective was to use the result of factor analysis in Logistic Regression analysis and Multiple Regression analysis as it can be seen in sections 7.11 and 7.12. The presentation starts with results of exploratory factor analyses as follows:

7.10.1 REPORT ON FACTOR ANALYSIS OF INTERNAL INTERNATIONALISATION STIMULI

The 21 internal stimuli variable was measured using the constructs established by Lindou (2004) and Lindou, *et al.* (2007). To conduct factor analysis, it was initially determined by Kaiser-Meyer-Olkin (KMO) measure and Bartlett's test that the number of data is suitable for factor analysis (Hair, *et al.*, 2006). The Kaiser-Meyer-Olkin (KMO) measure of sample adequacy indicates that the 21-items sample was adequate for factor analysis (KMO measure = 0.855). The Bartlett's Test of Sphericity shows the significance of $p < 0.01$. The statistic of Bartlett's test which is an approximation of χ^2 statistic is less than 5%, namely 0.00 which shows that factor analysis is suitable for identifying the studied structure.

The results of the exploratory factor analysis showed that the 21 identified internal export stimuli were reduced to five underlying dimensions with Eigen values of at least one, for which a proper name is selected according to the content of the loaded variables in each dimension. Items loading of at least 0.5 were considered practically significant (Hair, *et al.*, 2006). The dimensions were labeled based on the theoretical discussions presented under chapters 3, 4 and 5 of this study. The dimensions are: managerial dimension; financial dimension; research and development dimension; marketing dimension and production dimension. As illustrated in Table 7.15, the managerial dimension includes utilisation of special managerial talent/skills/time, hire skilled human resources, management's international experience and knowledge, managers export orientation, management strong social network and management's interest in internationalisation. The managerial dimension was accounted for 35.49% of the total variance.

Potential for extra growth from exporting, potential for extra sales/profits from exporting, possession of financial competitive advantage, stagnation/decline in domestic sales/profits were loaded under the financial dimension and was accounted for 13.51% of the total variance. Research and development dimension related to the internal capability of firms and has two variables:

Possession of proprietary technical knowledge and possession of a unique/patented product. The marketing dimension related to the factors that are driven by marketing management issues. This dimension included increasing competition in home market, availability of unique product, possession of a marketing competitive advantage and ability to easily adapt marketing for foreign markets was accounted for 7.81% of the total variance.

The production dimension as the fifth dimension has three variables; smoothing production of a seasonal product, availability of unutilised production capacity and accumulation of unsold inventory which was accounted for 6.42% of the total variance. The factor analysis result revealed that two variables, extending lifecycle of domestic products and achievement of economies of scale, were not loaded under any dimension, because they did not gain the minimum 0.5 required amount. Therefore, these two items were deleted and not included in subsequent analyses.

Table 7.15: Rotated Component Matrix for Internal Internationalisation Stimuli

Internal Stimuli Variables	Dimension				
	1	2	3	4	5
Management strong social network	.779				
Hire skilled human resources	.756				
Management's interest in internationalization	.738				
Management's international experience and knowledge	.704				
Managers export orientation	.704				
Utilization of special managerial talent/skills/time	.809				
Potential for extra growth from exporting		.893			
Potential for extra sales/profits from exporting		.824			
Possession of financial competitive advantage		.754			
Stagnation/decline in domestic sales/profits		.712			
Possession of proprietary technical knowledge			.875		
Possession of a unique/patented product			.687		
Increasing competition in home market				.787	
Availability of unique product				.830	
Possession of a marketing competitive advantage				.634	
Ability to easily adapt marketing for foreign markets				.516	
Smoothing production of a seasonal product					.771
Availability of unutilised production capacity					.632
Accumulation of unsold inventory					.791
Eigen Value	7.454	2.837	2.565	1.641	1.349
Percentage Variance explained	35.49	13.51	12.21	7.81	6.42
Cumulative Percentag	35.49	49.00	61.22	69.03	75.45
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.				0.855	
Bartlett's Test of Sphericity				Approx. Chi-Square	
				2394.568	
				df	
				210	
				Sig.	
				.000	
Extraction Method: Principal Component Analysis.					
Rotation Method: Varimax with Kaiser Normalization.					
a. Rotation converged in 7 iterations.					

Source: Analysis of Survey Data (SPSS Factor Analysis result-2015)

The factor analysis generates factor loadings that represent the correlations between each item/variable and each factor (Babbie, 2009). The factor loadings of all the items and results of the factor analysis is shown in the Table 7.15. All the factor loadings are above 0.5 and the values are in the range 0.516 to 0.893. These five factors explained 75.45% of the total variance which can be used as the total validity measure of the model. In the present analysis, the Eigen values above 1 is only selected. Eigen value represents the total variance explained by each factor (Hair, *et al.*, 2006). The factor scores of these five dimensions were used as explanatory variables in Logistic Regression analysis presented later on in this chapter.

7.10.2. REPORT ON FACTOR ANALYSIS OF EXTERNAL INTERNATIONALISATION STIMULI

The 36 items of external export stimuli were subjected to principal components analysis (PCA) using SPSS for Windows Version 20. Prior to performing PCA the suitability of data for factor analysis was assessed. Inspection of the correlation matrix revealed the presence of many coefficients of .3 and above. As it can be seen from Table 7.16, the Kaiser-Meyer-Okin value was .795, exceeding the recommended value of .6 (Hair, *et al.*, 2006) and the Barlett's Test of Sphericity reached statistical significance, supporting the factorability of the correlation matrix.

Factor analysis was used to reduce the 36 variables to a smaller number of factors that represents the essential characteristics of the set of external stimuli to SMEs internationalisation. Cronbach's alpha for the 36 items measure was 0.984. The underlying factors were determined using principal component analysis with varimax rotation. Principal components analysis revealed the presence of six components with eigenvalues exceeding 1, explaining 34.13%, 16.2%, 12.15%, 8.03 %, 5.24% and 4.46 % of the total variance respectively. An inspection of the screeplot revealed a clear break after the sixth component. The Six factors identified are presented in Table 7.16 in the following page.

Table 7.16: Rotated Component Matrix for External Internationalisation Stimuli

External Stimuli Variables	Dimension					
	1	2	3	4	5	6
Possession of information	.886					
Exploitation of new market	.591					
Development of global networks	.776					
Market demand for the goods abroad	.872					
Unexpected foreign opportunity	.841					
Brand acceptance in foreign market	.812					
Good economic situation abroad	.776					
Geographical proximity	.722					
Encouragement by distributors		.855				
Existence of foreign sales agents		.763				
Encouragement by industry associations		.635				
Encouragement by financial institutions		.583				
Gaining foreign expertise			.880			
Intense domestic competition			.853			
Entry of a foreign competitor in home market			.726			
Competition with foreign firms			.661			
Initiation of exports competitors			.629			
Contact from support organisation				.872		
Access to Government export subsidies				.816		
Reduction of domestic constraints				.654		
Encouragement by government				.577		
Relaxation of foreign rules					.872	
Reduction of trade barriers overseas					.843	
Cultural similarity						.873
To reduce power of domestic customers						.728
Unfavorable domestic economy						.714
Inadequate domestic demand						.522
Eigen Value	12.29	5.82	4.37	2.89	1.89	1.66
Percentage of Variance explained	34.13	16.17	12.14	8.03	5.24	4.46
Cumulative Percentage	34.13	50.29	62.44	70.47	75.71	80.18
Kaiser-Meyer-Olkin Measure of Sampling Adequacy .795						
Bartlett's Test of Sphericity	Approx. Chi-Square				3394.568	
	df				310	
	Sig.				.000	
Extraction Method: Principal Component Analysis.						
Rotation Method: Varimax with Kaiser Normalization.						
a. Rotation converged in 23 iterations.						

Source: Analysis of Survey Data (SPSS Factor Analysis result-2015)

The interpretation of the results of factor analysis was facilitated by using only the variables with loadings greater than 0.50 as it can be seen in table 7.16. The six factors selected explain 80.2% of the total variance (Table 7.16). Factor 1 was labelled as foreign market stimuli and is comprised of eight variables. They are: Possession of exclusive information on foreign markets, exploitation of new market, development of global networks, market demand for the goods abroad, unexpected international opportunity, brand acceptance in foreign market, good economic situation of clients' country and geographical proximity to foreign markets. These are related to market opportunities in foreign markets and accounted for 34.13% of the total variance (Table 7.16). The four variables in factor 2 are more aligned to the brokers and agents dimension of export stimuli and therefore this factor is labelled as intermediaries' related stimuli. The four variables: -encouragement by distributors, existence of foreign sales agents, encouragement by industry associations and encouragement by financial institutions explain 16.2% of the total variance (Table 7.16).

Factor 3 is competition related. It is labelled competition related motives and consists of five variables (gaining foreign expertise to improve domestic competitiveness, intense domestic competition, entry of a foreign competitor in home market, competition with foreign firms and initiation of exports by domestic competitors) that explain 12.15% of the total variance (Table 7.16). Factor four was labeled as domestic government stimuli which explain 8.03% of the total variance (Table 7.16). The four variables representing this factor are: -contact from support organisations, such as chamber of commerce, access to Government export subsidies for export operations, reduction of domestic institutional constraints and encouragement by government agencies (Table 7.16).

Only two variables were loaded on factor five which was labeled as foreign Government stimuli. The variables are: -relaxation of foreign rules and regulations and reduction of tariff and non-tariff trade barriers in some foreign countries which is accounted for 5.24% of the total variance explained. The sixth

factor represents domestic market stimuli and accounted for 4.5% of total variance explained and comprises of variables-cultural similarity, need to reduce the power of domestic customers', unfavourable state of domestic economy and inadequate demand in the home market. The above six underlining factors were used as a latent variable to measure external export stimuli and was further evaluated in Logistic Regression analysis model.

7.10.3 REPORT ON FACTOR ANALYSIS OF INTERNAL INTERNATIONALISATION BARRIERS

The 31 items measuring internal export barriers construct were subjected to principal components analysis (PCA) using SPSS for Windows Version 20. Prior to performing PCA the suitability of data for factor analysis was assessed. The Kaiser-Meyer-Okin value was 0.912, exceeding the recommended value of .6 (Hair, *et al.*, 2006) and the Barlett's Test of Sphericity in the present analysis, yielded a value of 2305.431 and an associated level of significance smaller than 0.001. The result revealed that the factors reached statistical significance, supporting the factorability of the correlation matrix.

From the factor analysis result (Table 7.17), it was found out that, four components had an eigenvalue >1 , suggesting that 4 factors should be kept for interpretation according to the Kaiser rule. Thus, after consideration of the amount of variance that was explained, as well as the interpretability of the resulting factors based on theoretical background of the construct of internal export barriers, the researcher decided to retain four factors in the final model, accounting for 75.12% of the total variance in the original 31 variables. Factor loadings (correlations) >0.50 was used as cut point to include variables in the final factor analysis. This suggests that the items loaded into the significant factors are valid and reliable measures of the proposed constructs. Table 7.17 shows the result of factor analysis.

Table 7.17: Rotated Component Matrix for Perceived Internal Internationalisation Barriers

Internal barriers	Dimension			
	1	2	3	4
Insufficient information about overseas market	.951			
Lack of knowledge on export assistance	.928			
Difficulties in gaining access to some data sources	.913			
Difficulty in making customer contacts	.859			
Inaccessible Market Information	.825			
Lack of knowledge about export markets	.811			
Lack of competitive price to customers in foreign markets		.811		
Accessing export distribution/advertising channels		.806		
Difficulty in matching competitors' prices		.801		
Difficulty in supplying inventory abroad		.767		
Complexity of foreign distribution/advertising channels		.758		
Need to adapt promotion to the foreign market		.744		
Difficulties in offering technical/after sales service		.811		
Lack of Managerial Capacity			.811	
Lack of export skills			.871	
Shortage of working capital to finance exports			.853	
Lack of personnel trained to handle export operation			.833	
Lack of excess production capacity for exports			.806	
Lack of managerial time to deal with exports			.742	
Lack of financial resources to finance exports			.734	
Lack of own internationally recognized brand				.733
Narrow product lines/absence of diversification				.822
Poor product quality				.718
Actual product unsuitable for overseas markets				.621
Challenges in meeting export packing/labeling requirements				.600
Difficulties in developing new products for foreign markets				.879
Difficulties in adapting export product design				.681
Eigen Value	10.49	6.62	3.90	2.26
Percentage of Variance explained	33.85	21.36	12.60	7.29
Cumulative Percentage	33.85	55.21	67.81	75.11
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.				.912
Bartlett's Test of Sphericity	Approx. Chi-Square			2305.431
	df			161
	Sig			.000
Extraction Method: Principal Component Analysis.				
Rotation Method: Varimax with Kaiser Normalization.				
a. Rotation converged in 8 iterations.				

Source: Analysis of survey Data (SPSS Factor Analysis output, 2015)

The results of the Varimax rotation PCA are given above in Table. 7.17. According to the results, the internal exporting barriers are grouped under four factors: Factor 1 relates to the issues of finding information and lack of knowledge about export market and is thus labeled the informational barriers factor and accounted for 33.85% of the total variance explained. Items in the second factor are concerned with adopting marketing strategies to foreign markets and are labeled as marketing barriers with 21.36% of variance explained by this factor. Items in the third factor are concerned with managerial and administrative aspects of engaging in export markets and are thus labeled the functional barriers factor with 12.60 % variance explained. The fourth factor is labeled the product related barriers and accounted for 7.5% of the total variance explained.

From 31 variables measuring internal exporting barriers, four variables were discarded, 'lack of knowledge on how exchange rates operate and difficulties in meeting export product quality/standards did not correlate with other variables, lack of new technology showed cross-loadings on factor 1 and factor 2, while 'the variable lack of knowledge on how exchange rates work had low factor extraction (< 0.50). The four barriers factors explained about 75.12 percent of the total variance and used as input in further Regression analysis.

7.10.4 REPORT ON FACTOR ANALYSIS OF EXTERNAL INTERNATIONALISATION BARRIERS

Factor analysis was conducted to reduce the 33 external export barriers items into a small number of "underlying" grouped factors. Principal components analysis was used to identify underlying grouped factors because of its simplicity and distinctive characteristic of data reduction capacity for extraction. The Kaiser–Meyer–Olkin Measure of Sampling Adequacy ($KMO = 0.842$) and Bartlett's Test of Sphericity ($\chi^2 = 3105.431, p < .001$) confirmed that factor analysis was appropriate on these items. The underlying factors were determined using principal component analysis with Varimax rotation. The analysis produced five

factors with eigenvalues greater than 1, which together accounted for 83.29% of the common variance.

To facilitate the interpretation of the results of factor analysis, factor loadings of 0.50 was used as cutoff point and the result are presented in Table 7.18. Cronbach's alpha for the 33 items measure was found to be greater than 0.82 and suggested high level of internal consistency. This was partly due to high level of response rate. Rotated Component Matrix factor loadings are also given in Table 7.18. Factors were labeled based on the latent dimensions each factor represents and literature review on external export barriers.

Table 7.18: Rotated Component Matrix for Perceived External Internationalisation Barriers

External Barriers	Component				
	1	2	3	4	5
Lack of Ethiopian governmental incentives	.914				
Inadequate government support schemes	.899				
Complex government bureaucracy	.807				
Foreign government restriction	.760				
Lack of financial assistance	.713				
High Tariffs and non-tariffs barriers	.620				
Unfamiliar exporting procedures/paperwork		.811			
Slow collections of payments from abroad		.695			
Difficulty in choosing a local representative		.690			
Difficulty in accessing distributors in foreign markets		.688			
Inadequate communications with overseas customers		.679			
Complexity of export documentations		.711			
High cost of establishing an office overseas		.691			
Strict foreign rules and regulations		.840			
Language differences overseas			.895		
Different socio-cultural traits			.775		
Special customer requirements			.738		
Different foreign customer attitudes			.721		
Cultural differences overseas			.574		
Unfamiliar foreign business practices			.546		
Lack of acceptance of Ethiopian products			.806		
High insurance costs				.864	
High transportation costs				.817	
Poor infrastructure				.709	
Unavailability of warehousing facilities abroad				.599	
Political instability in foreign markets					.776
Currency fluctuations					.750
Intense competition in foreign markets					.652
Poor/deteriorating economic conditions abroad					.612
Eigen Value	13.35	5.59	3.62	2.74	2.18
Percentage of Variance explained	40.45	16.95	10.98	8.31	6.603
Cumulative Percentage	40.45	57.41	68.38	76.69	83.29
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.			.842		
Bartlett's Test of Sphericity			Approx. Chi-Square		
			3105.431		
			df		
			561		
			Sig.		
			.000		
Extraction Method: Principal Component Analysis.					
Rotation Method: Varimax with Kaiser Normalization.					
a. Rotation converged in 23 iterations.					

Source: (Analysis of Survey Data, SPSS output 2015)

The results of the Varimax rotation PCA are given above in Table 7.18. According to factor analysis results, the 33 external exporting barriers are grouped under five dimensions:- Factor 1 relates to the issues of governmental and trade related barriers and was labelled as Governmental barriers. The variable of “lack of Ethiopian governmental incentives” has the highest variance score (.914), subsequent variables have the following variance scores “inadequate government support schemes” (.899), “complex government bureaucracy” (.807), “foreign government restriction” (.760), “lack of financial assistance” (.713) and “high tariffs and non-tariffs barriers” (.620). This factor explains 40.45 % of the total variance score.

Eight items in the second factor are related to challenges SMEs faced in initiating and expanding export activities and was labeled as procedural barriers. The variable “strict foreign rules and regulations” has the highest variance score (.840), subsequent variables showed the following variance scores “unfamiliar exporting procedures/paper work” (.811), “complexity of export documentations requirements” (.711), “slow collections of payments from abroad” (.695), “high cost of establishing an office overseas” (.691), “difficulty in choosing a local representative abroad” (.690), “difficulty in accessing distributors in foreign markets” (.688) and last but of course not least “inadequate communications with overseas customers” (.679). This factor was accounted for 16.954% of the total variance score.

Factor 3 labelled as “socio-cultural barriers” consisting seven external exporting problems related variables. The variable “language differences overseas” has the highest variance score (.895), subsequent variables have the following variance scores “lack of acceptance of Ethiopian products overseas” (.806), “different socio-cultural traits” (.775), “special customer requirements” (.738), “different foreign customer attitudes” (.721), “cultural differences overseas” (.574) and “unfamiliar foreign business practices” (.546). This factor explains 10.98% of the total variance score.

Four variables were highly associated with the shipment and transportation related external barriers and labelled as “logistics related barriers” and accounted for 8.308 % of the total variance. Among these variables, “high insurance costs” has the highest variance score (.864), subsequent variables have the following variance scores “high transportation costs & shipping arrangements” (.817), “poor infrastructure” (.709), and the last variable “unavailability of warehousing facilities abroad” has the variance score of .599.

The final factor was labelled as “environmental barriers” consisting of four external exporting problems related variables. The variable “political instability in foreign markets” has the highest variance score (.776), while the variable “currency fluctuations” has the variance score of .750. The other two variables intense competitions in foreign markets and poor/deteriorating economic conditions abroad have variance scores values of .652 and .612 consecutively. The fifth factor explains 6.603 % of the total variance. The result of factor analysis also revealed that, from the 33 variables measuring external exporting barriers, four variables were discarded. Difficulties in warehousing and controlling the physical product flow in the foreign market, inadequate foreign network of the banks you work with, inadequate exchange rate policies and quality requirements and standards in the target market had factor loadings lower than the cutoff value (0.50).

7.10.5 REPORT ON FACTOR ANALYSIS OF EXPORT PERFORMANCE INDICATORS

Drawing upon the literature, three subjective measures of performance were used to measure SMEs export performance. The subjective measures are growth of sales, growth of profitability, and growth of exports. These measures were factor analysed and as a result one factor was extracted as illustrated in Table 7.19 in the next page.

Table 7.19: Export Performance Factors Total Variance Explained

Component	Initial Eigen-values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.584	86.139	86.139	2.584	86.139	86.139
2	.221	7.378	93.517			
3	.194	6.483	100.000			
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.					.762	
Bartlett's Test of Sphericity			Approx. Chi-Square		72.836	
			df		3	
			Sig.		.000	

Extraction Method: Principal Component Analysis.

Source : Analysis of Survey Data (SPSS output 2015)

The result of factor analysis using Principal Component Analysis and Varimax rotation shows that only one factor is extracted and no need of performing factor rotation. One factor explains 86.139% of the total variance. Table 7.19 shows the result of Factor Analysis. This factor is labeled as Extent of sales profitability from export operation and the factor score was used in subsequent analysis.

7.11 REPORT ON LOGISTIC REGRESSION ANALYSIS RESULTS

Based on the result of preliminary analysis of data suitability, Logistic Regression was performed with enter LR Method with 95% confidence interval. Enter method is a method where all the explanatory variables entered without considering predictive probability unlike that of forward LR model. In this study the default method of LR was chosen because the explanatory variables were derived from past empirical works and subjected to exploratory factor analysis prior to running the Logistic regression statistic.

Preliminary result reveals that, a logistic model is said to provide a better fit to the data if it demonstrates an improvement over the intercept-only model (also called the null model). An intercept-only model serves as a good baseline because it contains no predictors. Consequently, according to this model, all observations would be predicted to belong in the largest outcome category. An improvement over this baseline was examined by using three inferential

statistical tests. Table 7.20 presents these three inferential statistical tests for overall model evaluation:- the likelihood ratio, score, and Wald tests. All three tests yield similar conclusions for the given data set, namely that given logistic model with independent variables was more effective than the null model. Table 7.20 also presents an inferential goodness-of-fit test, the Hosmer-Lemeshow test. Hosmer-Lemeshow test statistics 9.060 was insignificant ($p > .05$), suggesting that the model was fit to the data well. A non-significant chi-square indicates that the data fit the model well (Burns and Burns, 2008).

Two additional descriptive measures of goodness-of-fit presented in Table 7.20 are R^2 fit statistic indices, of Cox & Snell R^2 and Nagelkerke R^2 . In this study the two values are 0.766 and 1.00, suggesting that between 76.6 per cent and 100 per cent of the variability in SMEs propensity to export is explained by the set of explanatory variables in the model. Nagelkerke R^2 is usually greater than Cox and Snell R^2 and in the case of this study, 1.00 indicates 100% strong relationship between the predictors and the prediction (Burns and Burns, 2008).

Table 7.20: Overall Model Evaluation and Goodness-of-Fit Statistics for logistic regression Analysis

Overall Model Evaluation			
Tests	χ^2	df	p
Likelihood Ratio test	11.019	2	0.001
Score test	64.702	2	0.00.
Goodness-of-fit Test			
Test	χ^2	df	p
Hosmer-Lemeshow Goodness-of-fit test	9.060	8	0.751
R^2-type Indices			
Cox and Snell R squared = .766			
Nagelkerke (Max rescaled) R squared = 1.00			
Omnibus Tests of Model Coefficients			
	Chi-square	df	Sig.
Block	98.731	15	.000
Model	98.731	15	.000

Source: Survey Data Analysis (Logistic regression SPSS output, 2015)

The Omnibus Tests of Model Coefficients as it can be seen from the bottom of Table 7.20 gives us an overall indication of how well the model performs, over and above the results obtained for intercept only model, with none of the predictors entered into the model. For this set of results highly significant value is preferred (the Sig. value should be less than .05). In the current study Omnibus Tests of Model Coefficients (Output) is significant, $\chi^2 (15) = 98.731, p < .001$. Therefore, the model (with set of explanatory variables used as predictors) is better than intercept only model.

Table 7.21: Classification table for SMEs Export Involvement

	Predicted		
Observed	Non-exporter	Exporter	Percentage Correct
Non-exporter	45	9	83.3
Exporter	5	31	86.1
Overall % correct			84.4

Note:
Sensitivity=4/45+9=83.3%
Specificity=31/31+5=86.1%
False Positive=5/5+45=10%
False Negative=9/9+31=22.5%

a. The cut value is .500

Source: Analysis of Survey Data (Logistic regression analysis result, 2015)

Table 7.21 presents the degree to which predicted probabilities agree with actual outcomes in a classification table. The overall correct prediction, 84.4% shows an improvement over the chance level which is 60%. With the classification table, sensitivity, specificity, false positive and false negative can be measured. Sensitivity measures the proportion of correctly classified events, whereas specificity measures the proportion of correctly classified nonevents. The false positive measures the proportion of observations misclassified as events over all of those classified as events. The false negative therefore measures the proportion of observations misclassified as non events over all of those classified as nonevents.

Preliminary analysis result of Logistic regression was also supported by the magnitude of sensitivity (83.3%) compared to that of specificity (86.1%). Sensitivity measures the proportion of correctly classified events (i.e., those SMEs reported as exporters), whereas specificity measures the proportion of correctly classified non events (those SMEs reported as non-exporters). Tables 7.22 and 7.23 show statistical tests of individual predictors for export motivating factors and barriers. To identify the most significant motives that stimulate SMEs exporting from Ethiopia, a logistic regression was performed to ascertain the effects of managerial, research and development, internal marketing , production related stimuli, foreign market factors, intermediaries, domestic market competition, government support, foreign government assistance, and domestic market condition, on the likelihood that studied SMEs are involved in exporting. The logistic regression model was statistically significant, $\chi^2 (15) = 98.731$, $P < .0005$. The model explained 100% (NagelkerkeR²) of the variance in SMEs propensity to export and correctly classified 84.4% of cases. Table 7.22 presents results of logistic regression analysis of export motivating factors.

Table 7.22: Result of Logistic Regression Analysis-Export stimuli

Explanatory variables	β	S.E. β	Wald's χ^2 (df=1)	p	Exp(β)	95% C.I.for EXP(β)		
						Lower	Upper	
Step 1 ^a	Managerial	7.409	2.609	23.066	.005	1650.64	9.933	235.173
	Researchd	-3.014	1.273	5.605	.018	.049	.004	.595
	Internalmkt	3.136	1.048	18.945	.003	23.007	2.947	179.60
	Production	-2.408	1.192	4.081	.043	.090	.009	.931
	Foreignmkt	-.325	.700	.216	.642	.722	.183	2.847
	Intermediary	2.307	1.536	2.257	.133	10.046	.495	23.731
	Competition	2.291	2.609	5.243	.022	9.882	1.391	70.213
	Domesticgov	1.469	1.273	4.746	.029	16.64	1.159	16.277
	Foreigngov	7.409	1.048	13.066	.005	.049	9.933	275.17
	Domesticmkt	-3.014	1.192	5.605	.018	23.07	.004	.595
Constant	-32.61	1.571	6.00	.993	.000	**N/A	**N/A	

Source: Analysis of Survey Data (Logistic Regression SPSS output, 2015)

**N/A=not applicable

Table 7.22, presents the statistical significance of individual regression coefficients (β s) tested using the Wald Chi-square statistic. The test of the intercept ($p < .05$) was significant suggesting that the intercept should be included in the model. The significance values of the Wald statistics for each predictor indicates that, managerial (Wald=8.066, $p = .005$), research and development (Wald=5.605, $p = .018$), internal marketing stimuli (Wald=8.945, $p = .003$), production related stimuli (Wald=4.081, $p = .043$), competition related stimuli (Wald=5.243, $p = .022$), domestic government stimuli (Wald=4.746, $p = .029$), foreign government stimuli (Wald=8.066, $p = .005$) and domestic market stimuli (Wald=5.605, $p = .018$). However, foreign market and intermediary related export stimuli factors, were not significant (Wald=.216, $p > .05$ and Wald=2.257, $p > .05$) consecutively.

The result revealed that ten factors significantly predict the dependent variable at 95% confidence level. It can further be observed that *managerial factors* is having the highest predictive power as the Wald's statistic is the highest in this case (23.066), followed by *internal marketing factors* (18.945), and *foreign government related factors* (13.066). But production related factors (Wald=4.081) are the least determining factors that determine SMEs export from Ethiopia.

The values represented in B column of Table 7.22 are the B coefficients of the regression model. The Logits (log odds) are the B coefficients (the slope values) of the regression equation. As the main intention of the researcher at this stage was not prediction, but identifying the significant dependent variables, these values are less useful for interpretation. However, the sign of the coefficient reveals an indication of the direction (positive or negative) of the relationship. Accordingly, a glance at B column in Table 7.22 shows that the variable measuring research and development, production related stimuli, and domestic market, showed a negative B value (-3.014), (-2.408), (-3.014) respectively.

The other useful piece of information in Table 7.22 is provided in the column headed Exp (B) column. These values are the odds ratios (OR) for each of the explanatory variables that affect SMEs propensity to export. Therefore, the odds ratio for managerial stimuli (Exp (B) = 1650.64, CI 0.95= [9.933, 235.173]) indicates that if the Value of perceived managerial stimuli factors goes up by 1, then the odds of being an exporter also increase (because Exp (B) is greater than 1). The confidence interval for this value ranges from 9.933, to 235.173, so this result revealed that the value of Exp (B) in the population lies somewhere between these two values. Moreover, since both values are greater than 1 then further implied that the relationship between perceived managerial stimuli factors and SMEs internationalisation behaviour found in this sample is true of the whole population. In short, as perceived managerial stimuli factors increase by 1, the likelihood of SMEs to start exporting are just over twice as unlikely not to export.

Of the other significant predictor, the odds ratio for internal marketing stimuli factors (Exp (B) =23.007, CI 0.95= [2.947, 179.60]) indicates that if internal marketing stimuli increases by one point, then the odds of being an exporter also increase (because Exp (B) is greater than 1). The confidence interval for this value ranges from 2.947 to 179.60, so the result reveals that the value of Exp (B) in the population lies somewhere between these two values.

The odds ratio for foreign government stimuli (Exp (B) =.049, CI 0.95= [9.933, 275.17]) indicates that as foreign government support increases then the odds of the likelihoods of SMEs to initiate export decline (because Exp (B) is less than 1). In addition, since both values are greater than 1 the results suggest that the relationship between foreign government stimuli and export initiation found in this sample would be found in 95% of samples from the same population. In short, as foreign government support increases by one unit, SMEs are about 0.49 times less likely to start exporting activities.

Table 7.23: SMEs Export Barriers Results of Logistic Regression Analysis

Explanatory Variables	β	S.E. β	Wald's $\chi^2(df=1)$	Sig.	Exp(β)	95% C.I.for EXP(β)		
						Lower	Upper	
Step 1 ^a	Inforbarr	-5.725	106.90	19.066	0.03	16.3	9.93	42 .1
	Markt barr	-34.07	52.63	4.605	.004	.000	.114	.895
	Functnbarr	-27.8	78.28	15.945	.023	.000	3.73	29.44
	Productbarr	-11.7	44.03	3.081	.002	130 .7	.008	.726
	Govebarr	-.246	39.14	.415	.035	1.29	.453	3.77
	Procedbarr	-3.53	176.90	13.167	.042	34.13	.395	43.5
	Scoculbarr	-19.3	52.663	6.324	0.03	262 .7	2.34	80.32
	Logstbarr	-5.725	78.278	17.066	.004	36.3	9.93	22 .1
	Envirn barr	-34.07	46.34	4.322	.023	76.3	6.33	52 .1
	Constant	-38.76	126.6	.000	.997	.000		

Source: Analysis of Survey Data (Logistic Regression SPSS output, 2015)

To further determine the most significant barriers hindering SMEs internationalisation from Ethiopia the following explanatory variables (i.e., Informational barriers, marketing barriers, functional barriers, product related barriers, governmental barriers, procedural barriers, socio-cultural barriers, logistics related barriers and environmental barriers) were examined using Logistic regression analysis and the result is shown in Table 7.23.

Therefore, as it can be seen from Table 7.23, Wald statistic indicated that all variables significantly and negatively influence export involvement of SMEs in Ethiopia. However, odds ratios for these variables indicate little change in the likelihood of export involvement. It can further be observed that informational barriers is having the highest predictive power as the Wald's statistic is the highest in this case (19.066), followed by logistics related barriers (17.066), functional barriers (15.945) and procedural barriers (13.167). But Government

related barriers (Wald=0.415), product related barriers (Wald=3.081) and environmental barriers (Wald=4.322) were the least rated export barriers of SMEs internationalisation in Ethiopia.

7.12 REPORT ON MULTIPLE REGRESSION ANALYSIS RESULTS

This section aims to evaluate the impact of export barriers factors on SMEs internationalisation performance. The variables being used in this analysis been identified from exploratory factor analysis presented in the previous sections. As the survey's data satisfied the assumption of multiple regression analysis as advocated by Hair, *et al.* (2006), a standard multiple linear regression was performed between SMEs internationalisation performance as the dependent variable and informational barrier, governmental barrier, procedural barrier, environmental barrier, logistics barrier, socio-cultural barriers and product related barriers as independent variables to determine any relationships. The use of the standard multiple linear regression test determines the strength of the relationship between each of the nine independent variables individually, and the dependent variable (Tabachnick and Fidell 2007). Table 7.24 shows model summary result that tests how well a regression model fits the data.

Table 7.24: Model Summary of multiple regression Analysis result

Model	R	R Square	Adjusted, R Square	Std. Error of the Estimate	Change Statistics
					R Square Change
1	.820	.672	.635	.297	.672

Source: Analysis of Survey Data (Multiple Regression SPSS output 2015)

As it can be seen from Table 7.24, the multiple correlation coefficient ($R = 0.820$) was significant which means that the combined correlation of the nine independent variables with the dependent variable are high indicates a good level of prediction. The third column of the above table represents the R^2 value (also called the coefficient of determination), which is the proportion of variance in the dependent variable that can be explained by the independent

variables (technically, it is the proportion of variation accounted for by the regression model above and beyond the mean model) (Hair, *et al.*, 2006). The value of 0.672 revealed that independent variables used explain 67.2% of the variability of the dependent variable, level of export performance. Moreover, the statistical significance of Model fit was tested and the result reads in the following table.

Table 7.25: ANOVA of Multiple Regression Analysis result

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	14.520	9	1.613	18.230	.000
Residual	7.080	80	.089		
Total	21.600	89			

Source: Analysis of Survey Data (SPSS out 2015)

As it can be gleaned from Table 7.25, the statistical significance of whether the overall regression model is a good fit for the data of the model was tested by means of the F-ratio in the ANOVA table (Table 7.25). The table shows that the F statistic with degree of freedom of 9 and 80 ($F(9, 80) = 18.230, p < 0.05$) means that the nine independent variables, as a set, are significantly related to the dependent variable. Thus, the regression model is a good fit of the data (Hair, *et al.* 2006). Table 7.26 on the next page summarised the final Regression analysis results.

Table 7.26 Multiple Regression Analysis of Export Barriers and SMEs export performance

Model	UnstdCo*		Stand Co.**	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
(Constant)	.400	.031		12.75	.000	.338	.462		
REGR factor score 1 for analysis 4	-.048	.096	-.098	.504	.616	-.143	.240	.108	9.275
REGR factor score 2 for analysis 4	-.153	.061	-.311	2.52	.014	.032	.274	.269	3.722
REGR factor score 3 for analysis 4	-.118	.073	-.239	1.621	.109	-.027	.263	.188	5.329
REGR factor score 4 for analysis 4	-.140	.080	-.284	1.744	.085	-.020	.299	.155	6.450
REGR factor score 1 for analysis 5	-.131	.056	-.267	2.33	.022	.019	.244	.313	3.194
REGR factor score 2 for analysis 5	-.453	.060	-.920	-7.53	.000	-.573	-.333	.275	3.642
REGR factor score 3 for analysis 5	-.305	.064	-.618	-4.78	.000	-.431	-.178	.245	4.088
REGR factor score 4 for analysis 5	-.054	.111	-.109	-.486	.628	-.274	.166	.081	12.299
REGR factor score 5 for analysis 5	-.136	.050	-.277	-2.704	.008	-.237	-.036	.392	2.554

a. Dependent Variable: REGR factor score 1 for analysis 1

*unstandardised coefficient ** Standardised coefficient

Source: Analysis of Survey Data (Multiple Regression Analysis SPSS output, 2015)

The Overall regression model result in Table 7.26 illustrates that the perceived internal and external internationalisation barriers (informational barrier, governmental barrier, procedural barrier, environmental barrier, logistics barrier, socio-cultural barriers and product related barriers) significantly affect export performance of SMEs ($F=18.230$, $p < .001$). A further observation at column B of Table 7.26, all b-values reads as negative, this implies that there are negative relationships between the predictors and the outcome variables.

However, examination of the sub variables revealed that informational barriers (p value=0.616), procedural barriers (p value=.109), environmental barriers (p value=0.085) and socio-cultural barriers (p value=0.628) do not significantly affect internationalisation performance of SMEs in Ethiopia.

7.13 PRESENTATION OF INTERVIEW FINDINGS

Pursuant to the methodology mentioned in the previous chapter, this section presents findings from semi-structured interviews with four exporting and five non-exporting Ethiopian SMEs in the leather and leather products industry. The interview was conducted to further strengthen the result of quantitative survey presented in the previous sections. The collected data were organised; edited and analysed qualitatively. The key findings are reported under two main sections involving motivating factors for internationalisation and barriers of SMEs internationalisation in Ethiopia. Cross-case analysis was also done to examine differences between exporting and non-exporting SMEs. In the first section, data about export motivations, patterns of internationalisation and the most common exporting mode and best destination market of exporting SMEs was presented. The second section presents findings about export barriers as mentioned by both exporting and non-exporting SMEs.

Prior to the presentation of interview findings it worth providing note on the demographic characteristics of respondents. Respondents interviewed represented those firms currently exporting and non-exporting. In line with the aims of the study, interviewed respondents were selected from one industry. In total, 4 firms in the sample were currently internationally active whereas 5 were non-exporting SMEs. To maintain ethical standards, for ease of reference and also to protect confidentiality of the interview as indicated under ethics consideration section of methodology chapter, the researcher used codes while addressing firms involved in the interview. Accordingly exporting SMEs were coded as "Exp" while non-exporters were coded as "Nex". While presenting the result corresponds to each respondent, the firms are referred to as Cases Exp1, Exp2, Exp3 and Exp4 for internationally active SMEs and Cases

Nex1, Nex 2, Nex 3, Nex 4 and Nex5 respectively to address non-exporting SMEs. Tables 7.27 and 7.28 below provide summary description of the case studies for internationally active and non-active firms including: position of key informant, number of employees, the extent of international experience, important overseas markets served.

Table 7.27: Profile of Exporting SMEs interview Participants

Case Firm	Main activities	Position	Number of Employees	Export Destination	Percentage of exports to total sales
Case Exp1	Men, Ladies & Children Shoe	Export manager	52-85	Uganda, Sudan, Italy, Canada	60%
Case Exp2	Leather Products	Owner/General manager	64-90	USA Sudan	75%
Case Exp3	Men Shoe, Children shoe	General Manager	50-84	Italy, France, Sudan, USA, Kenya	70%
Case Exp4	Gents shoe Ladies shoe Children shoe	Export manager	57-79	South Sudan COMESA	20%

Source: Structured Interview findings (information at the time of data gathering).

Table 7.28: Profile of Non-Exporting SMEs interview Participants

Case Firm	Main activities	Position	Number of Employees
Case Nex1	Leather, shoes, leather goods, garments,	Owner/General manager	22-47
Case Nex2	Leather & Related	General Manager	33-47
Case Nex3	Manufacturing bags & handbags	General Manager	14-35
Case Nex4	Manufacturing shoe & footwear	Owner/General manager	21-39
Case Nex5	Leather and Related	General Manager	27-42

Source: Structured Interview findings (information at the time of data gathering).

The following findings are the results from the analysis of semi-structured interview conducted with SMEs managers/owners:

7.13.1 MOTIVES FOR SMEs INTERNATIONALISATION

The factors that stimulate a business's initial decision to internationalise are diverse and multifaceted as discussed under chapter 3 and 4 of this study. The decision may be influenced by government export incentives, need to grow and get profit, availability of export market opportunities, special incentive program from foreign government such as African Growth and Opportunity Act(AGOA) and other trade agreements. Interview findings revealed that, there are different variations of the market saturation and global situations that illustrate the complex and dynamic nature of the internationalisation process. Interview participants mentioned some of the critical factors that triggered internationalisation of SMEs from Ethiopia. As the respondents represented by both internationally active and domestic oriented SMEs there are opposite ideas in the findings. The following paragraphs present interview findings concerning internationalisation motives and patterns of Ethiopian SMEs in the Leather and Leather products industry.

Firms' success in domestic market may motivate them to initiate internationalisation activities. This is sometimes due to the fact that firms had exhausted their potential to grow in domestic market of Ethiopia. So as to expand and grow, these businesses have the choice to pursue exporting or look for other alternatives through which they can expand their business. This idea was supported by, the respondent from case Exp3, a medium-sized Ethiopian owned company in the manufacture of Men Shoe, and Children Shoe that had established a strong domestic base, commented on the motive for internationalisation.

“Our firm is quite a large player in the domestic market here in Ethiopia and whilst there's still room to grow in Ethiopia the most lucrative growth opportunities available overseas”

Survival beyond profit generation was the best option for some SMEs. This idea was supported by case firm Exp2 a medium-sized manufacturer of leather

products. The General Manager stressed that "you have got to look for oversea markets otherwise you are loser". Another example is case firm Exp 1 a medium-sized, manufacturer of leather shoes of different types. In order to keep its market share and stay competitive in Ethiopian market, this business had to improve its product quality because imported cheap products from abroad plus customer attitude towards domestic shoes push them to look for other alternatives.

The complex and dynamic nature of internationalisation meant that the initial objectives for majority of SMEs from Ethiopia had been based upon growth within a domestic market. Establishing a strong domestic base was important for many businesses as interview findings revealed. As discussed under chapter 3 this finding fits into a resource-based view of the firm in which firms seeks to establish a strong resource and capability base in the domestic market before seeking growth and diversification through internationalisation activities. Thus, such businesses considered their strong domestic market share as vitally important to fund their overseas activities. A number of firms commented on the link between their strong domestic presence and their success in international markets indicating that firms are using their own financial capability to fund internationalisation activity. To this end respondent from case firm Exp5 commented on the importance of having a strong and established domestic base market.

"Having a reasonable share of local market you can afford to penetrate international market because you are capable of funding it"

Managerial factors especially the intention of SMEs managers to export was a major motivation for most participants to start internationalisation as mentioned by all the exporting SMEs interviewed. This finding complement significant positive relationship between managerial factors and SMEs propensity to export as shown in quantitative survey results presented in previous section of this chapter. Furthermore, case firm Exp1 stressed that: "One of the main determinants of a firm's decision to export or not is the 'SME manager's

intentions and objectives to export. The decision is related to the fact that the exporting decision, or any strategic move, is centered mainly in the managers' hands. For this reason, intentions towards such an activity are very important'. Similarly, participant Exp4 stated: 'I believe that the commitment and ambition of senior management and the decision-makers towards the company's development and growth are the most important factors that trigger internationalisation of SMEs from Ethiopia.

A majority of interviewees self-reported that promising international market opportunities constituted the most influential external proactive motivation to begin exporting (Exp1, Exp2, Exp 4 and Exp5). Participant Exp2 identified that: "Foreign markets especially that of North America were full of opportunities that pulled us to export with no fear of the risk' because of the opportunities made available under AGOA agreement. Another external stimulus was the foreign contacts that managers had previously developed as suggested by case firms Exp 3 and Exp4.

Furthermore, respondents' revealed that Ethiopian SMEs managers were motivated to export by four main external reactive motivations. Firstly, all participants were motivated to export to USA and COMESA countries because of relative minimisation of trade tariffs, which gave them a competitive advantage over some of the their competitors. Secondly, a large majority of participants started to export because the local competition made it difficult to sell (and remain profitable) in the local market. Thirdly, two participants (Exp1 and Exp5) were motivated to export due to accessibility to attractive government export incentives; so the companies could export with no fear from any risks. For instance, participant Exp5 stated that: "export promotion schemes of Ethiopian Government, the newly started Export competitiveness facility had an act to encourage Ethiopian SMEs exporters to become more involved in international activities, especially exporting. They reimburse the exporters any export related expenditures, and they also provide different capacity building technical support for exporters and prospective future exporters. Without a

doubt, this encouraged me to export, no matter the risk because we are already getting paid by our government so the risk is eliminated" said case firm Exp5.

Respondents also stressed the state of competition in domestic market as motivating factor for firms to initiate exporting. Case firms Exp1 and Exp 4 especially underlined saturation of the domestic market as critical factor influencing SMEs initiation of internationalisation activities. Respondents stressed that, as the local demand was not able to grow, due to cheap imported products and the high number of existing local companies, the only way to increase sales was to enter new markets through exporting. For instance, participant Exp 4 confirmed that: 'I believe that exporting our products ensures our survival, especially when the local sales decline. Nevertheless, we still need to develop our capabilities'. Another participant (Exp 3) stated that: "I am considering exporting as a strategic move. Yes, exporting is very important, especially when local market sales decline due to stiff competition". Case firm Exp1 commented that: "It's about moving away from the crowded market here where we have got more competitors."

In some cases, the international activity was triggered by unsolicited enquiries from overseas. Enquiries typically came from agents, distributors or customers. Added to this factor, case firms Exp1, Exp3 and Exp4 have commented on their management's ability to recognise and more importantly exploit opportunities overseas. For example, the respondent from case Exp4 commented on the development of contacts as part of the process of exploiting opportunities. He pointed out that "*he travelled round looking for opportunities.*"

However, internationally non-active SMEs provided contrasting examples where opportunities were recognised, but not necessarily exploited. In some cases, the reasons for non-exploitation were quite practical such as difficulties in meeting customer requirements. In other cases, the reasons were more subtle and due to motivations and ambitions of the owners or previous experience.

In general concerning motives for SMEs internationalisation, the findings presented above confirm that Ethiopian SMEs exporters were motivated by a variety of stimuli, (both internal to external) motivational factors. A majority of participants agreed that these motivations greatly influenced how they perceived the risks associated with exporting, and how their behaviour influenced their export-related decisions. For example, the results suggested that the more exporting stimuli in both domestic and international markets that SMEs managers perceived, the more the risks will be perceived as low and may be ignored. As a consequence, SMEs tend to become more active exporters.

In summary the above findings support a staged approach to internationalisation. The interviewed internationally active case firms probably fit this model best and it follows from the need to investigate opportunities, build key relationships, have people employed "on the ground" overseas and to understand the needs of overseas markets. According to the stages' approach or Uppsala model firms start by serving their domestic market and move through distinct stages, until they are committed to serving geographically dispersed markets. It has been typically suggested that entrepreneurial decisions often follow a systematic and sequential process commencing with a culturally similar country. Subsequently, decisions are taken to serve international markets that are seen as more culturally dissimilar and possessing more risk. For example, it has been suggested that this process develops on the basis of entrepreneurs gaining information and perceiving risk differently based on experiential learning. However, the success of SMEs is based not only on motivating factors but also those factors hindering initiation and expansion of firms in international business. The following section presents findings on internationalisation barriers faced by Ethiopian SMEs.

7.13.2 BARRIERS HINDERING SMES INTERNATIONALISATION

In response to the question "what are the major barriers/challenges faced by SMEs in Ethiopia to start or expand internationalisation." Both exporting and non-exporting SMEs participated in interview mentioned a number of factors

both internal and external. Among these barriers, the followings are some of the major export barriers of SMEs internationalisation as stressed by respondents:

- Product related challenges which include related issues of quality of the export product, the quality standards set by the importing countries and the adaptation of products to different market.
- Industry related challenges manifested in the form of distinctive foreign consumer preferences, unfamiliar business protocols and practices oversea, the imposition of tariff barriers in some countries and fierce competition in globalised world.
- Respondents also highlighted export market related challenges of which product requirement in the export market, country of origin problem, the differences in legal and regulatory frame-work in importing countries, bad image of product in foreign market, insufficient foreign demand and cultural and language differences were the most important factors mentioned by both internationally active and non-exporting SMEs.
- Lack of marketing knowledge and information, lack of adequate working capital for internationalisation, lack of trained and experienced human resource, and lack of knowledge about the internationalisation were the most important company related barriers mentioned by respondents.
- Macro environmental barriers manifested as exchange rate fluctuation, lack of international trade agreement, lack of support from the government, the political instability in destination countries, and logistics related problems.
- The lack of adequate institutions that can facilitate the internationalisation of Ethiopian SMEs is a big challenge after the companies start to internationalise their business.
- Slow and expensive transportation (road transport rather than rail and lack of seamless multimodal transport systems-most inward and outward bound containers are unstuffed/stuffed in Djibouti).

- The complexity of the process for exporting and importing manifested by cumbersome customs procedures (a risk-based approach to customs inspections and international transit agreements to facilitate border crossings have not been implemented, resulting in multiple inspections en route).
- High tariffs applied by potential African partners: Ethiopia has good access to global markets due to zero tariffs in the major industrialised countries but still faces significant tariff barriers in its African trading partners.

7.14 CHAPTER SUMMARY

In this chapter the basic reporting and chronicling of empirical results and findings obtained through questionnaire survey and semi-structured interview were done. There were 90 Ethiopian based manufacturing enterprises that responded to the survey and 9 respondents involved in the follow up interview.

The result reveals that the decision to engage in internationalisation is triggered by a combination of factors that relate to internal and external factors. Having saturated the domestic market or receiving customer enquiries from overseas might not be enough for a business to start internationalising. Further analysis of logistic regression showed that, ten factors significantly predict internationalisation involvement of Ethiopian SMEs at 95% confidence level. It can be summarised that *managerial factors* is having the highest predictive power as the Wald's statistic is the highest in this case (23.066), followed by *internal marketing factors* (18.945), and *Foreign Government related factors* (13.066). But production related factors (Wald=4.081) are the least determining factors that determine SMEs export from Ethiopia.

The overall response finding about internationalisation barriers showed that Ethiopian SMEs have a challenge that relates to the internal factors in relation to internationalisation, marketing and information knowledge logistics related barriers and financial problems. In addition the quality of the export item is

found to be a challenge for internationalisation. Moreover, the result of logistic regression analysis showed that, informational barriers is the most critical challenge faced by Ethiopian SMEs as the Wald's statistic is the highest in this case (19.066), followed by logistics related barriers (17.066), functional barriers (15.945) and procedural barriers (13.167). But Government related barriers (Wald=0.415), product related barriers (Wald=3.081) and environmental barriers (Wald=4.322) were the least rated export barriers of SMEs internationalisation in Ethiopia.

The study further determined whether the decision to internationalise among manufacturing SMEs in Ethiopia varied on the bases of certain enterprise characteristics and managerial factors. The findings revealed that firm size, firm ownership and manager's international experiences are the most important factors in initiating internationalisation among Ethiopian SMEs. The following chapter presents discussion of results and findings which leads towards conclusion and recommendations made as a result of this current study.

CHAPTER 8

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

8.1 INTRODUCTION

The previous chapter presented the results and findings obtained through survey questionnaire and personal interviews. The purpose of this chapter is to present synthesis of empirical results as it can be seen in chapter 7. This chapter also draws conclusions from empirical findings and the research as a whole in light of the theoretical framework guided this current study. Also included in this chapter are the limitations associated with the current research, recommendations drawn from empirical results and reviewed literatures. The chapter goes on with presentation of managerial implications, policy implications, contribution to knowledge and suggestions for future lines of investigation.

The chapter starts with reiteration of purpose and aims as well as the problem statement justified in chapter 1 of this current study. Then empirical results on motives and patterns of internationalisation of SMEs in Ethiopia are presented in line with theoretical framework of this study. The discussion goes on with emphasis on barriers that hinder internationalisation of SMEs in Ethiopia and the impact of barriers on export performance of SMEs. Then the relationship between different variables studied in this study is examined in light of the hypotheses formulated from literatures as mentioned in chapters 1 and 5 of this current study.

The chapter also outlines critical reflections of the objectives of this current study, in line with summary of major findings and conclusions drawn from findings corresponding to each objective. The Chapter ends with recommendations, limitations, implications and directions for future line of inquiry.

8.2 PURPOSE OF THE STUDY AND PROBLEM STATEMENT

The purpose of this study was to explore and analyse internationalisation process of SMEs in manufacturing industries in Ethiopia with emphasis to leather and leather goods industry. The special emphasis was with regard to the context of developing countries internationalisation of manufacturing SMEs. The current research contributed up to date information for theory development in the field of international business and international entrepreneurship. Reviewed theoretical and empirical works as seen in chapters 3 and 4 in the field of internationalisation research into SMEs in most developing countries, such as Ethiopia is at early stage and evidence within the manufacturing sector is still lacking. This was some of the rational that motivated this current study. Accordingly the problem statement was formulated as follows "*What is the pattern of Small and Medium-sized manufacturing business internationalisation process and how SMEs internationalisation is hindered by export barriers with in manufacturing industries in Ethiopia.*"Therefore, the research focus was to understand the extent of the internationalisation of Ethiopian SMEs and to determine most significant motivating factors and barriers of internationalisation of manufacturing SMEs in Ethiopia. Thus, through analyses of motives, patterns, market entry strategies and barriers that characterise internationalisation of firms from Ethiopia including the role of government in promoting internationalisation of SMEs were the constructs of interest in this current study.

As shown in chapter 2, Ethiopian export sector has been characterised by less diversification and dominated by exports of primary agricultural products. Manufacturing export was insignificant especially in leather sector industry besides country's competitive advantage as to the raw material concerns. The problem statement was framed in view of the existing situations of manufacturing industry and international competitiveness and challenges encountered by Ethiopian export sector. The study was conducted within the philosophical stance of pragmatism paradigm. A deductive process was followed to confirm internationalisation motives and barriers of SMEs in

manufacturing industries in Ethiopia. An inductive process was followed to contribute new theoretical perspectives to existing theory of firm internationalisation with specifically on SMEs internationalisation behaviour in developing countries.

The unit of analysis for this current study was organisations and the target respondents were SMEs owners/Managers of manufacturing firms operating in Leather and Leather products industry. To obtain all rounded information in terms of breadth and depth with rich descriptions a mixed research design was implemented. A quantitative survey with self-managed questionnaire was administered to randomly selected SMEs owners/managers. The survey was complemented by semi-structured interviews which were conducted with managers/owners of internationally active and domestic oriented SMEs. The case firms were selected based on survey participants on the ground of critical case selection approach. Participants selected for this study comprised of 36 owner/managers of exporting SMEs and 54 owner/managers of domestic oriented firms for the survey phase and the follow-up interviews were comprised of 9 owner/managers(four of them representing internationally active SMEs and 5 were representing non-exporting SMEs).

Even if some of the respondents demographic data were not used in the analysis main demographic data of the participants were discussed with the aim of connecting empirical data with demographic information of respondents. The quantitative data were coded cleaned and analysed with aid of computer software (SPSS for windows version 20). The researcher used thematic analysis, methodological triangulation and case by case descriptive narration to make sense of the qualitative data.

In conclusion, this current study was conducted on the activities performed at firm level and considered the factors that shape internationalisation decision of manufacturing SMEs in Ethiopia. Results and findings from this current study emphasised internal and external factors motivate internationalisation of SMEs in Ethiopia. As to barriers of internationalisation concerns, it was found out that

majority of exporting SMEs indicated intense competition in foreign markets and complex government bureaucracy as the major external barriers they faced, however, their local counterparts were of the view that lack of financial assistance as well as unfamiliar exporting procedures/paperwork are major reason why they failed to start involvement in export activities. Based on the above anecdotal view of this current study, the following sections focused on discussion of the results and findings as shown in chapter 7.

8.3 DISCUSSIONS OF FINDINGS IN RELATION TO RESEARCH QUESTIONS

This current study aimed to examine internal and external factors that motivate or hinder internationalisation involvement of manufacturing SMEs and investigated relationships between export performance and export barriers of manufacturing SMEs in Leather Industry of Ethiopia. In order to achieve this objective, the study began by addressing one central research question and five investigative sub-questions. All the research questions were discussed with results and findings from survey and interview as well as literature reviews and hypotheses testing.

The main research question of this study was "*what is the pattern of small and medium-sized manufacturing business internationalisation process and how SMEs internationalisation is hindered by export barriers within manufacturing industries in Ethiopia?*" comprehensive review of extant literatures on firm internationalisation, internationalisation of SMEs, international business, international entrepreneurship and strategic management were conducted and presented in chapter 3. Chapter 4 discussed the problem in perspective by highlighting internationalisation motives and barriers of manufacturing SMEs in Ethiopia. The context of the study with special focus on macro-economic information about Ethiopia, international integration of the country including the role of manufacturing SMEs in the country's economy and export earnings were discussed in chapter 2.

In light of the central research question mentioned above, the first sub-question of this study asked what factors motivate internationalisation of SMEs in manufacturing industries in Ethiopia. Section 7.6 (Tables 7.2, p.281 and 7.3, p.283), section 7.6.1 (Table 7.4, p.285) and section 7.13.1 as indicated in chapter 7 reported on the results and findings. The second sub-question asked what patterns and strategies of internationalisation do Ethiopian SMEs adopted. Section 7.4.6 (Figure 7.11, p. 276 and section 7.4.7 (Figure 7.12, p.277) reported on the most important destination markets for exporters and entry strategies of internationalisation process of Ethiopian SMEs.

The third sub-question asked what barriers SMEs encountered in initiating and expanding internationalisation, and section 7.7 (Tables 7.5, p.287 and 7.6, p.289) as well as section 7.13.2 reported on the results and findings of internal and external export barriers. The fourth sub-question asked how internationalisation performance of exporting SMEs affected by internal and external export barriers. Section 7.5 (Figures 7.13, p.287, 7.14, p.279 and 7.15, p.279) and section 7.12 presented the result of descriptive and multiple regression analyses as to the relationship between export barriers and internationalisation performance of SMEs concerns. The final sub-question asked what exporting and non-exporting SMEs expected the government to do in the process of strengthening internationalisation of Ethiopian firms. Section 7.8 (Table 7.7, p. 291) reported results of perceived government export incentive programs as rated by both exporting and non-exporting SMEs. The following discussions uncover key issues of results and findings as it can be seen in the previous chapter.

8.3.1 Investigative Question 1: What driving forces motivate the Internationalisation process of Ethiopian SMEs in Manufacturing Industries?

As it was discussed in Chapter 4, a firm's involvement in exporting is the result of a wide array of motives, which can be classified into internal and external categories (Leonidou, *et al.*, 2007). These export motives, also called stimuli, incentives or attention evokers, are the main drivers of the firm's decision to initiate export activities. Further, internal motives are associated with factors

such as the accumulation of unsold inventory, the desire for growth, and the possession of a unique product. In contrast, external motives are associated with the external environment in both the home and host countries, including unsolicited orders from abroad, favourable exchange rates, and encouragement by government agencies (Leonidou, *et al.*, 2007). On the same token, driving forces of internationalisation are factors motivating the internationalisation process within SMEs and are either internal or external stimuli, or can be seen as the result of a reactive or proactive behaviour (Crick, 2007).

Moreover, Leonidou (2004) and Leonidou, *et al.* (2007) was of the opinion that internal and external motivating factors determine SMEs decision whether to enter foreign markets or not. To this end, the findings of the current study as it can be seen from Table 7.2, p.281, out of 54 non-exporting SMEs, 54% considers management's interest in internationalisation, 49 % considers skilled human resource as important factor, 46% considers management strong social network, 42% rated utilisation of special managerial talent/skills/time as important internal stimuli, 40% responded that management's international experience and knowledge makes a difference to be internationally active firm whereas 37 % stressed the importance of manager export orientation as one of the critical elements to initiate international operation. These findings agree with past empirical studies of OECD (2009); Susanne (2012); Kocker& Buhl (2007) as seen in chapter 3 and 4 of this current study.

Moreover, Wright, *et al.* (2007); Crick and Spence, (2005); Caliskan, *et al.* (2006); Freeman and Cavusgil, (2007) boldly stressed the role of management of the firm to understand and use of opportunities in foreign markets. It was very interesting to note that the findings in Table 7.2, p.281, in favour of exporting SMEs revealed, management's interest in internationalisation (42%), managers export orientation (40%) and management strong social network (31%) were rated as major internal factors motivated their decision to initiate

internationalisation. These were also considered as important factors by non-exporting SMEs as evidenced by 37% and 46% of respondents respectively.

Recent studies by Pinho (2007); Freeman and Cavusgil, (2007) have shown that managerial characteristics act as important drivers in the internationalisation process of SMEs. Some of the characteristics identified are demographic (for example age and education), some are aspects of international exposure (for example country of birth, time spent living overseas, and frequency of business trips overseas), and some reflect knowledge of international business (for example familiarity with culture, international business practice) and international transactions experience (Pinho, 2007). The findings of the current study confirms results of these past works except some inconsistencies observed in the current study regarding age and education of managers/owners of SMEs in Ethiopia. Further study can take this idea and thoroughly investigate the correlation between these two variables and firm internationalisation.

Another important finding of the current study was external factors motivating internationalisation of Ethiopian firms. As shown in Table 7.3, p.283, out of 54 non-exporting firms, 33 % perceived inadequate demand in the home market as external factors that motivate firms to go global. It was also found that 40 % of non-exporters have indicated that exploitation of new market, 41% encouragement by industry, trade and other associations and increasing positive attitude towards Ethiopian products 33% are the most important external motivating factors of firm internationalisation in Ethiopia.

However, relaxation of foreign rules and regulations in certain foreign markets (46%), encouragement by banks /financial institutions (46%), patriotic duty of local firms (44%), possession of exclusive information on foreign markets (43%), and geographical proximity to foreign markets (42%) were the top five external export stimuli factors rated by internationally active Ethiopian manufacturing SMEs. This result supports the works of Calantone, *et al.* (2006), Ruzzier, *et al.* (2006) and the works of Le & Luong (2009) on the case of Vietnam.

In contrast to the above results of descriptive analyses the result of Exploratory Factor analysis as shown in Tables 7.15 and 7.16 on pages 302 and 304 reveal that, managerial factors; financial stimuli; research and development factor; marketing related factors, production related factors, foreign market stimuli, intermediaries' related stimuli, competition related, domestic government stimuli ,foreign Government stimuli and domestic market stimuli are the most important determinant factors for internationalisation of SMEs. These findings reveal that Ethiopian SMEs join international market due to external pull factors instead of internal push factors.

8.3.2 Investigative Question 2: What Patterns and Internationalisation Strategy do Ethiopian Manufacturing SMEs follow?

This question was raised to describe internationalisation behaviour of Ethiopian SMEs in terms of patterns and entry modes. As discussed in chapter 3, according to Jones and Coviello (2005) internationalisation can be captured as “patterns of behaviour, formed by an accumulation of evidence manifest as events at specific reference points in time”. Hence, in this current study internationalisation was defined as patterns in line with Jones and Coviello (2005) and Kuivalainen, *et al.* (2012) as firm-level behaviour that crosses national borders and can be evidenced at specific points in time. Prior research on SMEs internationalization (see chapter 3) has discussed three major internationalisation patterns: gradual internationalisation as proposed by the Uppsala model, radical internationalisation as proposed by past research on born globals and international new ventures and radical but late internationalisation as evidenced by the so-called born-again global firms (see chapter 3).

According to these theoretical perspectives the findings of this current study shows that, most Ethiopian SMEs followed gradual internationalisation strategy. However, the empirical findings as well as data gathered from secondary sources regarding market destination of Ethiopian exports contradicts with the construct of psychic distance as argued by Johanson and Valneh (2009). This

was evidenced by the findings shown in Figure 7.11 on page 276 regarding export markets of Ethiopian products only 15% of the destination market directed towards neighbouring African countries. However, there was a difference between the findings obtained from secondary sources (government publications and reports of different organisations) as to the most important export market destination for Ethiopian exports. It is necessary to highlight that, most firms can adjust their strategy to meet the needs of their best market and be able to compete in the industry that they are engaging. Those markets which are not identified as most important markets can be an opportunity for SMEs to investigate the business opportunity and explore needs for their export and enhance their internationalisation involvement meaningfully.

As discussed in chapter 3, the two variables emphasised by the Uppsala model are the foreign operation modes and the countries based on the concept of psychic distance. According to the Uppsala model, firms lack knowledge on foreign markets and associate those markets with uncertainty, which causes traditional firms to start expanding into psychically and/or geographically close markets that are similar to the home market. Because of these firms' aversion to risk and lack of knowledge on foreign markets, the firms also start internationalising by using low-risk and low-commitment entry modes, such as exporting via agents. Whereas the operation modes have been discussed as a structural scale measure of internationalisation in the literature, the countries dimension has been addressed as a geographical or market scope measure (Kuivalainen, *et al.*, 2012). In line with the above theoretical frames it was found out that 88.9% (Figure 7.12, p.277) of Ethiopian firms rated exporting as best alternative modes of international market entry. This finding agrees with past works of Johanson and Vahlne (2009); Eusebio, *et al.*, (2007); Westhead (2008) as discussed in Chapter 4 of this study.

8.3.3 Investigative Question 3: What are the factors that hinder Internationalisation process of SMEs in Manufacturing Industries in Ethiopia?

This question aimed at investigating those internal and external barriers hindering SMEs internationalisation in Ethiopia. As seen in chapter 4, export barriers can be defined as the attitudinal, structural, operational and other constraints that hinder a firm's ability to initiate, develop or sustain international operations (Koksal and Kettaneh, 2011).

As shown in Table 7.5, p.287, it was found out that exporting SMEs rated inaccessible market information (35%), lack of managerial capacity (34%), lack of knowledge on export assistance (30%); need to adapt promotional activity to export (30%), unreliability in supply of raw materials (26%), lack of financial resources to finance exports (26%), and lack of knowledge about export markets (26%); as major barriers of international operation. This finding confirms past works that stressed personnel adequacy (Rutihinda, 2008), lacking in skill (Milanzi, *et al.*, 2012) or qualification (Koksal, 2006; Pinho and Martins, 2010). Some specifically identified problems are lack of staff for export planning (Ortiz and Ortiz, 2011) or lack of staff for export administration or managing international trade activity (Suarez and Alamo, 2005; Craig and Julian, 2005).

In favour of non-exporting SMEs it was also found out that, lack of export skills (55%); lack of excess production capacity for export (55%); lack of new technology (49%), shortage of working capital to finance exports (46%); need to adapt promotional activity to export (45%), difficulties in developing new products for export (43%); and narrow product lines/absence of diversification (42%) were found to be major obstacles hindering initiation of export operation. From the result it is possible to infer that, many of the SME's remained neutral on some of the barriers, as they were unsure as to whether it was a true barrier to SME entry to foreign markets or not. In chapter 4 of this current study it was mentioned that, barrier in production is usually related to insufficient or lack of production capacity (Koksal, 2006; Ahmed, *et al.*, 2006; Ortiz and Ortiz, 2010). Milanzi, *et al.* (2012), on the other hand, used the term to refer to export supply capacity constraint.

With regard to external export barriers as indicated in the works of AlHyairi, *et al.* (2011); Pinho and Martins (2010); Ortiz and Ortiz (2010) competition related barriers, complexity of export procedures, and unstable political environment in overseas countries were rated as major external challenges of SMEs internationalisation. In this current study it was found out that, intense competition in foreign markets (37%), cultural differences overseas (34%), different foreign customer habits/attitudes (29%), complex government bureaucracy (28%) and lack of Ethiopian governmental incentives (26%) were external barriers highly rated by exporting SMEs.

Another important finding was export barriers highly rated by non-exporting SMEs. The result shows that, intense competition in foreign markets (68%), high transportation costs & shipping arrangements (65%), unfamiliar exporting procedures/paperwork (57%), lack of financial assistance (56%), quality requirement and standards in the target market (55%), poor infrastructure (50%), currency fluctuations (47%), and inadequate government export incentives (45%) were critical external factors hindering them from going global. This finding supports empirical works of Okpara & Koumbiadis (2009); Pinho and Martins (2010); and Ortiz and Ortiz (2010). The above findings will further be synthesised in connection to the findings corresponding to investigative question 4 discussed in the next section.

8.3.4 Investigative Question 4: How Internationalisation Performance of Exporting SMEs is influenced by Internal and External Barriers?

Exporting constitutes the most popular, quickest and easiest way for many small firms to internationalise (Leonidou, *et al.*, 2007). Indeed, in the case of small and medium enterprises (SMEs) exporting activities gain particular importance for their survival, growth and long-term viability, since exporting represents a less resource-laden approach as compared with alternative foreign market entry and expansion modes. This current study was focused on SMEs due to their recognised importance to economic growth, innovation, job and wealth creation in most countries, as they often account for the main part of the

industrial base (Niето and Fernandez, 2006; Karadeniz and Gocer, 2007). The discussions in chapters 2 and 3 revealed that as a result of improving international contributions of SMEs, the sector is widely considered as an increasingly important policy priority in countries across the world including Ethiopia as shown in chapter 2 of this study.

Firms' survival and expansion and the consequent economic growth of numerous countries are strongly contingent upon a better comprehension of the factors that influence their export performance (Sousa, *et al.*, 2008). Therefore, the findings observed in Figures 7.13 to 7.15, pp.278-279, confirmed the difficulties SMEs are facing due to internal and external internationalisation barriers. The significance level of each export barrier factors in influencing internationalisation performance of Ethiopian SMEs was tested using multiple regression analysis and the result was presented under section 7.12 and interpreted and discussed in the section under hypotheses testing later on in this chapter.

8.3.5 Investigative Question 5: What Government Support Programs are there to Promote SMEs Internationalisation in Ethiopia?

In an effort to provide an answer to this final investigative question, survey data were used, with a focus on the view of sampled exporting and non-exporting SMEs on different export promotion arrangements implemented by Government and other support agencies. From reviewed literatures it was found out that, as far as SMEs are concerned, government support programs directly or indirectly influence their international market selection especially at their early stage of internationalisation into foreign market. In Ethiopia different trade policy reform was undertaken which aimed at promoting exports through diversifying the country's commodity exports.

Among the measures undertaken to promote exporting in Ethiopia the following were important ones:

a) Devaluation of the Ethiopian currency by more than 140 percent in terms of US dollar to make exports competitive and promote export trade.

b) The tariff regime was continuously revised and was reduced on a stage basis from a maximum of 230 percent to 50 percent. Similarly, to nullify the anti-export bias, the state lifted a 2 percent transaction tax on non-coffee exports and abandoned the direct financial subsidy on export.

c) The import and export licensing system were simplified and become more transparent so as to encourage new entrants in the export market.

d) A duty draw back scheme was introduced where by exporters are re-funded the tax and duty they paid on the inputs and raw materials used in export production.

All these reforms have immensely improved the domestic policy environment for SMEs. In fact, the Government has gone a step further in its support for small enterprises by formulating a National Micro and Small Enterprises (MSEs) Development and Promotion Strategy. This is an important beginning and should be followed by refinements of micro-policies and incentive schemes aimed at promoting learning and technical change at the enterprise level (MoTI, 2009).

In this current study, the findings depicted in Table 7.7, p.291, shows that exporting and non-exporting Ethiopian SMEs have different expectations towards overall Government support for international activities. Therefore, exporting SMEs tend to view the overall government support for international activities as less satisfactory both in terms of financial support and of the accessibility of capacity building services. This was evidenced by descriptive findings of initiatives that enhance working capital (77%), help to resolve logistics and transportation issues (67%), loans at a discounted rate (53%), assistance to develop capabilities (48%), market research or other internationalisation-related training workshops (43%), and trade fairs/missions to source for business leads (42%) were highlighted by exporting SMEs as an aspect that needed to be concentrated on by the government. On the other

hand non-exporting SMEs stressed support in the areas of credit facilitation, provision of working premise and capacity building training. This finding is consistent with the works of Wilkinson and Brouthers (2006); Wright, et al. (2007).

8.4 HYPOTHESES TESTING

As shown in chapter 1 some of the secondary objectives of this current study aimed at investigating relationship between different variables of interest in this current study. In order to address three of these secondary objectives viz.: (1) to determine the most significant export determinant and impediments factors (2) to determine relationship between critical factors and firm internationalisation (3) To examine the impact of internationalisation barriers on SMEs export performance. In order to guide the empirical this current empirical study thirteen hypotheses were formulated. The aim of the empirical data was to either accept or reject the individual hypotheses. Both parametric and non parametric statistical tests of Chi-square tests of independence, spearman's rank order correlation coefficients, binary logistic regression analysis and multiple regression analysis were used to examine hypothesised relationships against empirical findings. The next section deals with the result of each hypothesis testing.

8.4.1 Hypotheses 1 and 2

Hypotheses 1 and 2:

***Ho₁:** Internal export stimuli as measured by managerial, financial, production, research and development and marketing related factors do not positively associate with the likelihood of the internationalisation of SMEs in Ethiopia.*

***Ho₂:** External export stimuli as measured by domestic market, foreign market, foreign government, intermediaries, competition and customers related factors do not positively associate with the likelihood of the internationalisation of SMEs in Ethiopia.*

Hypotheses 1 and 2 postulated that internal and external stimuli factors are not positively associated with SMEs export decisions. The results from hypothesis

testing depicted in Table 7.22, p.316, shows existence of positive relationship between managerial factors (Wald=8.066, p=.005), research and development related factors (wald=5.605, p=.018), internal marketing stimuli (wald=8.945, p=.003), production related stimuli (wald=4.081, p=.043), competition related stimuli (wald=5.243, p=.022), domestic government stimuli (wald=4.746, p=.029), foreign government stimuli (wald=8.066, p=.005) and domestic market stimuli (Wald=5.605, p=.018). However, foreign market and intermediary related export stimuli factors, were not significant (Wald=.216, p>.05 and Wald=2.257, p>.05) consecutively. The result is not in support of hypotheses 1 and 2.

8.4.2 Hypothesis 3

Hypothesis 3:

Ho₃: There is no significant association between firm size as measured by number of employees and the likelihood of its internationalisation.

Hypothesis 3 hypothesised non-existence of relationship between firm size and firm internationalisation. As shown in Table 7.8, p.293, a chi-square test of independence was performed to examine the association between firm size and export involvement. The relation between these variables was significant, $\chi^2(df=5, n = 90) = 54.932, p<.001$. Thus, hypothesis 3 is not supported.

8.4.3 Hypothesis 4

Hypothesis 4:

Ho₄: There is no significant association between firm age and the likelihood of its internationalisation.

In order to test the association between firm age and internationalisation Chi-square test of independence was conducted as shown in Table 7.9 presented in chapter 7, p.294. The result of Pearson chi-square shows that the association between firm age and internationalisation is significant $\chi^2 (df=2 n=90) = 9.011, P = .001$ and hypothesis 4 is not supported.

8.4.4 Hypothesis 5

Hypothesis 5:

Ho₅: There is no significant association between foreign ownership of firm and the likelihood of its internationalisation.

Hypothesis five hypothesised that foreign ownership has no relationship with the likelihood of SMEs export involvement. As shown in Table 7.10, p.295, examination of Pearson's chi-square test results indicated that 50 % of cells had expected counts less than 5 which suggested existence of an expected value warning that should be considered. Therefore, fisher's exact test was evaluated to test the relationship between foreign ownership and internationalisation. As a result weak association between firm ownership and export involvement was found χ^2 (fisher's exact test $p=.056$) and is in line with hypothesis five.

8.4.5 Hypothesis 6

Hypothesis 6:

Ho₆: There is no significant association between international experience of managers and the likelihood of firm internationalisation.

To determine whether there was a relationship between owners'/managers' past international experience and firm export involvement cross-tabulation analysis with chi-square test of independence was conducted. As shown in Table 7.11, p.296, a chi-square test of independence result revealed existence of significant association between prior experience of SMEs managers/owners and initiation of export activities, $\chi^2(1, n=90)=18.73, p<.001$. As a result hypothesis 6 was rejected with 95% confidence level.

8.4.6 Hypothesis 7

Hypothesis 7:

Ho₇: There is no significant association between Manager's international orientation and the likelihood of firm internationalisation.

Spearman's rank order correlation (ρ) coefficient was employed for measurement of relationships between SMEs managers' international orientation and export involvement. As shown in Table 7.12, p.297, it was found

out that there is a strong, positive correlation between the two variables [$r=.619$, $n=90$, $p<.0005$], with high levels of export orientation associated with the likelihoods of SMEs to initiate export involvement. Consequently hypothesis 7 is rejected.

8.4.7 Hypothesis 8

Hypothesis 8:

Ho8: There is no significant association between manager's knowledge and skills and the likelihood of firm Internationalisation.

Spearman's rank order correlation (ρ) coefficient was employed for measurement of relationships between SMEs managers' internationalisation knowledge and skills and decision to start export operation. The result in Table 7.13, p.298, revealed that there is a strong, positive association between internationalisation knowledge and SMEs propensity to export [$r=.501$, $n=90$, $p<.0005$], with high levels of internationalisation knowledge associated with probability of SMEs to start exporting. Hence hypothesis 8 is not supported.

8.4.8 Hypothesis 9

Hypothesis 9:

Ho9: There is no significant association between Manager's social network and the likelihood of firm Internationalisation.

Spearman's rank order correlation (ρ) coefficient was employed for measurement of relationships between SMEs managers' level of networking and SMEs propensity to export. As seen in Table 7.14, p.299, it was found out that there is a strong, positive relationship between social network of managers'/owners' of SMEs [$r=-.548$, $n=90$, $p<.001$.], with high levels established strong network associated with active involvement of SMEs in internationalisation involvement. This empirical finding didn't support the proposition of hypothesis nine.

8.4.9 Hypotheses 10 and 11

Hypotheses 10 and 11:

Ho₁₀: Internal export barriers as measured by informational, functional and marketing related factors do not negatively associate with the likelihood of SMEs internationalisation in Ethiopia.

Ho₁₁: External export barriers as measured by procedural, task, governmental and environmental related factors do not negatively associate with the likelihood of SMEs internationalisation in Ethiopia.

From the result of logistic regression as shown in Table 7.23, p.319, Wald statistic indicated that, the following factors are significant: informational barriers (Wald=19.066), logistics related barriers (Wald=17.066), functional barriers (Wald=15.945), procedural barriers (Wald=13.167), government related barriers (Wald=0.415), product related barriers (Wald=3.081) and environmental barriers (Wald=4.322). Consequently hypotheses 10 and 11 are partially supported.

8.4.10 Hypothesis 12

Hypothesis 12:

Ho₁₂: There is no significant relationship between the extent of internal and external export barriers and the level of SMEs internationalisation performance in Ethiopia.

Hypothesis 12 postulated non- existence of relationship between export barriers and performance. From the result of Multiple regression analysis as shown in Table 7.26, p.322, ,informational barriers, governmental barriers, procedural barriers, logistics barriers, and product related barriers were significant ($f=18.230$, $p < .001$). However, it was found out that, informational barriers (p value=0.616), procedural barriers (p value=.109), environmental barriers (p value=0.085) and socio-cultural barriers (p value=0.628) do not significantly affect internationalisation performance of SMEs in Ethiopia. Accordingly hypothesis 12 is partially accepted.

8.4.11 hypothesis 13

Hypothesis 13:

Ho₁₃: Internationalisation behaviour of Ethiopian SMEs in manufacturing industries cannot be explained by internal and external export stimuli factors and barriers factors.

Hypothesis 13 was hypothesised as to the overall significance of studied constructs in relation to internationalisation determinants and impediments of internationalisation of Ethiopian SMEs. It was found out that five internal stimuli as shown in section 7.10.1 and six external stimuli factors indicated in section 7.10.2 determined internationalisation of SMEs in Ethiopia. Moreover, the results of exploratory factor analysis presented under sections 7.10.3 and 7.10.4 revealed four internal barriers factors and five external export barriers factors as impediments to internationalisation of Ethiopian SMEs in manufacturing industries. Thus, hypothesis 13 is not supported. Table 8.1 in the following page shows summary of hypotheses testing:

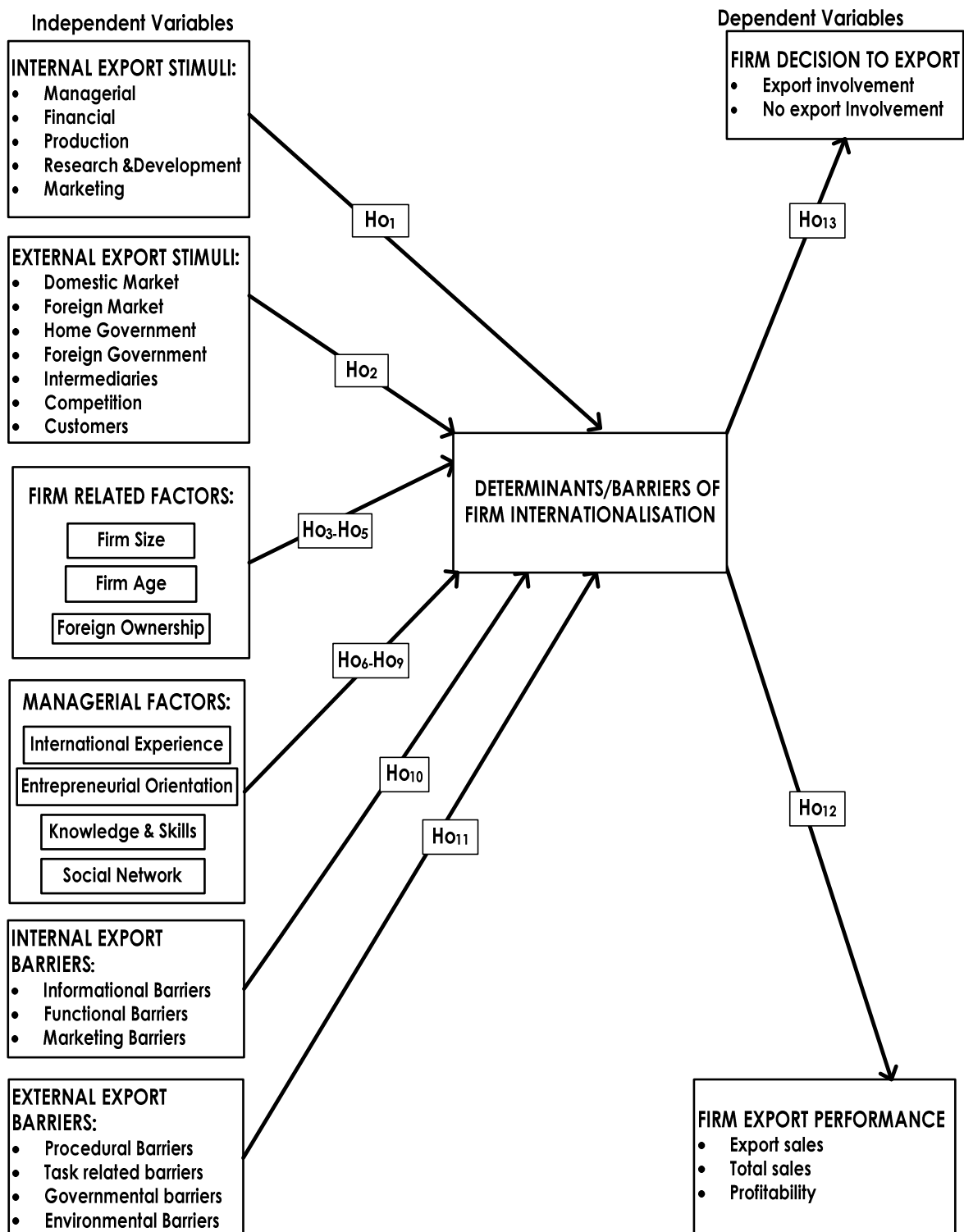
Table 8.1: Summary of Hypotheses Testing

No	Empirically tested Null hypotheses	Outcome
Ho₁	<i>Internal export stimuli as measured by managerial, financial, production, research and development and marketing related factors do not positively associate with the likelihood of the internationalisation of SMEs in Ethiopia.</i>	Not supported
Ho₂	<i>External export stimuli as measured by domestic market, foreign market, foreign government, intermediaries, competition and customers related factors do not positively associate with the likelihood of the internationalisation of SMEs in Ethiopia.</i>	Not supported
Ho₃	<i>There is no significant association between firm size as measured by number of employees and the likelihood of its internationalisation.</i>	Not supported
Ho₄	<i>There is no significant association between firm age and the likelihood of its internationalisation.</i>	Not supported
Ho₅	<i>There is no significant association between foreign ownership of firm and the likelihood of its internationalisation.</i>	Supported
Ho₆	<i>There is no significant association between international experience of managers and the likelihood of firm internationalisation.</i>	Not supported
Ho₇	<i>There is no significant association between Manager's international orientation and the likelihood of firm internationalisation.</i>	Not supported
Ho₈	<i>There is no significant association between manager's knowledge and skills and the likelihood of firm Internationalisation.</i>	Not supported
Ho₉	<i>There is no significant association between Manager's social network and the likelihood of firm Internationalisation.</i>	Not supported
Ho₁₀	<i>Internal export barriers as measured by informational, functional and marketing related factors do not negatively associate with the likelihood of SMEs internationalisation in Ethiopia.</i>	Partially supported
Ho₁₁	<i>External export barriers as measured by procedural, task, governmental and environmental related factors do not negatively associate with the likelihood of SMEs internationalisation in Ethiopia.</i>	Partially supported
Ho₁₂	<i>There is no significant relationship between the extent of internal and external export barriers and the level of SMEs internationalisation performance in Ethiopia.</i>	Partially supported
Ho₁₃	<i>Internationalisation behaviour of Ethiopian SMEs in manufacturing industries cannot be explained by internal and external export stimuli factors and barriers factors.</i>	Not supported

Source: Authors own compilation fro quantitative data analyses (2015)

These empirically tested hypotheses are illustrated in Figure 8.1 on the next page.

Figure 8.1 Theoretical Model of SMEs Internationalisation Behaviour



Source: Author's own construction from literature for this study (2015)

8.5 SUMMARY OF FINDINGS AND CONCLUSIONS

The overall aim of this current study was to investigate firm internationalisation motives and barriers of manufacturing SMEs in the Leather and Leather goods Industry in Ethiopia. In order for the achievement of primary research objectives, a number of secondary objectives were formulated. The specific research objectives were, within the context of manufacturing industry, to:

- To explore determinant factors that motivates business internationalisation among Ethiopian SMEs in manufacturing industry.
- To identify the pattern and mode of entry followed by Ethiopian SME's in manufacturing industry to expand their business in foreign markets.
- To determine impediment factors that hinders internationalisation of manufacturing SMEs in Ethiopia.
- To examine the impact of internationalisation barriers on SMEs internationalisation performance.
- To determine the relationship between some critical factor and exporting status of Ethiopian manufacturing SMEs.
- To identify possible differences from SMEs managers' perspectives towards Government export incentive packages, ranging from non-exporter to exporter.
- To recommend an integrated model that explains SMEs internationalisation behaviour for the manufacturing sector in Ethiopia.
- To identify areas of future research in the field of firm internationalisation with special emphasis on SMEs.

In order to attain a full understanding as to whether or not the objectives were realised, the research objectives stated in chapter 1 and repeated above will be reiterated below and conclusions will be drawn according to each

respectively. Each objective is revisited below, followed by summary of findings and a conclusion supported by literature study as presented in Chapters 3 and 4 as well as the data analysis in chapter 7.

Research Objective 1: SMEs Internationalisation Determinants-Motivating Factors

This first secondary research objective was to explore the motives driving business internationalisation among Ethiopian SMEs. The literature identified the main reasons why firms have become involved in international business activities: external pull factors from domestic and foreign governments, market factors, industrial factors and internal push factors as entrepreneurial orientation of managers, availability of resources to run export operations. The findings show that ten internal and external factors significantly predict export involvement of Ethiopian SMEs at 95% confidence level. It can further be observed that *managerial factors* is having the highest predictive power as the Wald's statistic is the highest in this case (23.066), followed by *internal marketing factors* (18.945), and *Foreign Government related factors* (13.066). But production related factors (Wald=4.081) are the least determining factors that determine SMEs export from Ethiopia.

As shown in literature chapter of this current study SMEs from developed countries are motivated by reactive approaches and relied on unsolicited request from foreign buyers. They internationalised when global market opportunities promised more than domestic opportunities or for competitive Research and Development. They responded to internationalisation when internal factors demanded them to venture out, and they sought for markets when they see opportunities. However, SMEs from developing economies like Ethiopia pursue proactive approach when going international. Thus, a conclusion drawn from this is that, managerial aspects, long term planning for export market and government supports are key issues for internationalisation.

Research Objective 2: Internationalisation Patterns and Mode of entry

The second secondary research objective was to identify the pattern and international market entry modes followed by Ethiopian SME's to expand their business in foreign markets. The result shows most Ethiopian firms follow traditional internationalisation and some also following rapid internationalisation as a result of international pull and push factors. Exporting was rated as the most important market entry strategy especially for newly internationalising SMEs. The conclusion that can be drawn from this study on internationalisation patterns and entry mode of Ethiopian SMEs in the leather and leather goods industry is that they followed traditional paths through exporting as main entry mode.

Research Objective 3: Barriers that hinder Internationalisation of SMEs

As stated in reviewed extant literatures, there are many potential barriers that can impede internationalisation in developing countries like Ethiopia (ranging from high cost of transportation, inadequate infrastructure, bureaucratic red tape, poor product quality for international market, and so on) but a main barrier identified in the literature was shortage of working capital, managerial capacity problem, and lack of export related information. In this current study it was found out that informational barrier (Wald19.066), logistics related barriers (Wald 17.066), functional barriers (15.945) and procedural barriers (Wald 13.167), Government related barriers (Wald=0.415), product related barriers (Wald=3.081) and environmental barriers (Wald=4.322). The empirical findings show that internationalisation barriers identified in the literature related to export barriers of developing countries can also be barriers encountered by Ethiopian firms; however, there was perceptual difference between exporting and non-exporting SMEs regarding different barriers. The conclusion that can be drawn from this current study on barriers to SMEs export involvement is that three main barriers hindering internationalisation of Ethiopian manufacturing firms in the leather industry are informational barriers, logistics related barriers and functional barriers (Lack of Managerial Capacity, Lack of financial resources to finance

exports, Shortage of working capital to finance exports and Lack of managerial time to deal with exports).

Research Objective 4: Influence of internationalisation barriers on Performance of SMEs

The fourth secondary research objective was to examine the impact of internal and external export barriers on SMEs export performance measured indirectly through subjective measures of total sales, export sales and profitability from exporting. From the result of multiple regression analysis the conclusion that can be drawn from this study on the impact of export barriers on internationalisation performance is that almost all barrier factors negatively affect performance of SMEs.

Research Objective 5: The relationship between organisational factors, managerial factors and internationalisation of firms.

In the literature firm related factors vis.: Firm age, Firm Size and ownership were the most frequently cited organisational factors that affect internationalisation decision of firms. Managerial factors of past experience, international orientation, knowledge and skill as well as social network also considered in past extant literatures as important managerial factors driving internationalisation of SMEs. In this current study the result of correlation analysis reveals that firm age and ownership are insignificant in determining firm export involvement. However, all managerial factors are found to be significant in determining export involvement. From these findings possible conclusion can be drawn is that managerial factors are the most important factors to be considered in the process of SMEs internationalisation in Ethiopia.

Research Objective 6: Government Export Incentive Programs

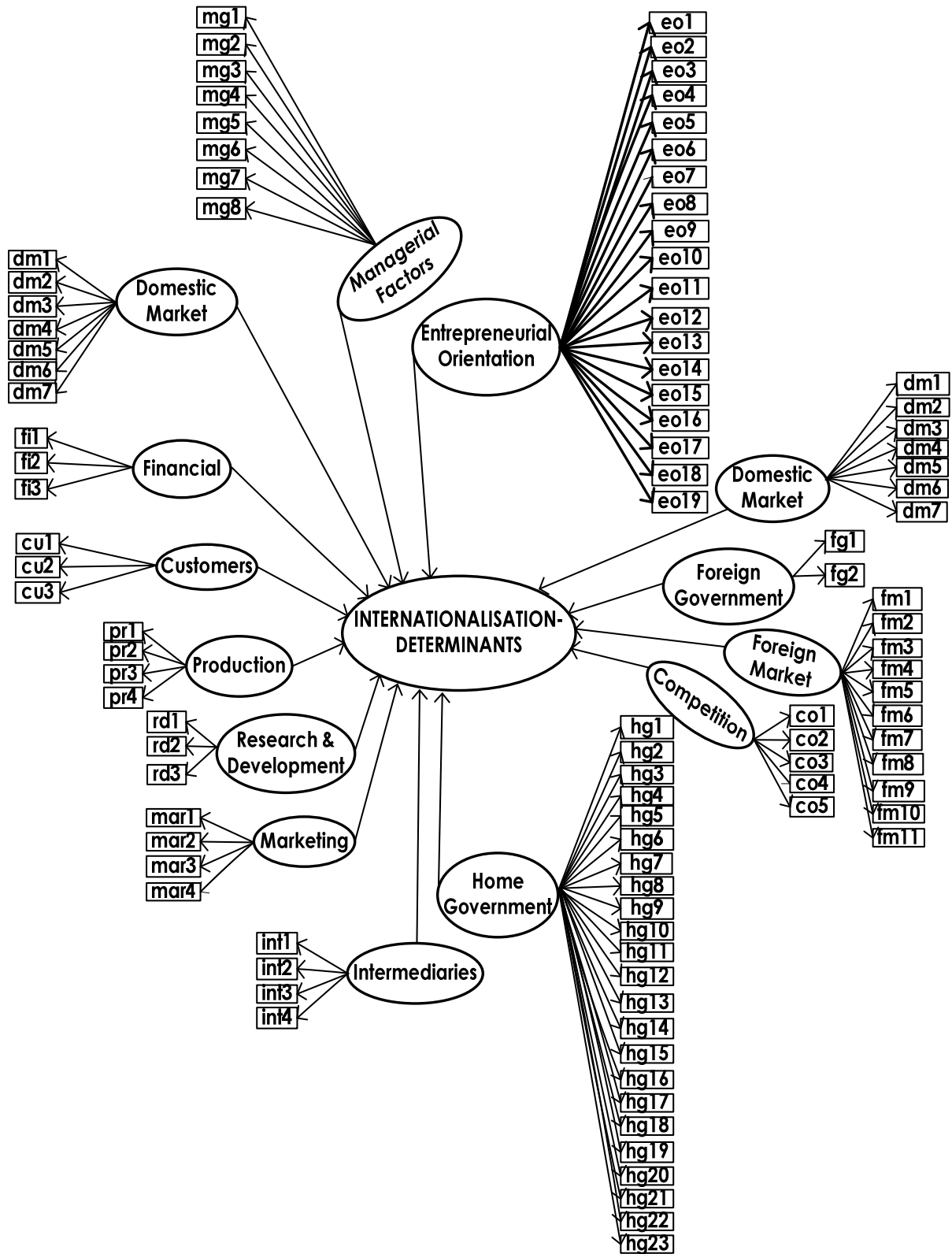
The sixth secondary objective was to identify possible differences from SMEs managers' perspectives towards Government export incentive packages, ranging from non-exporter to exporter. The key construct in this case were about the role government can play in the process of enhancing international

involvement and competitiveness of SMEs. In the literature review conducted for this current study as mentioned in chapters 3 and 4, different government related issues were highlighted. For example, regulations, export policy, procedural customs, tax legislation, interest rate policy, labour law regulations, administrative infrastructures are the most important factors that affect international involvement of SMEs. In this current study the findings revealed that, financial support, capacity building, making foreign currency available are the most critical factors SMEs are expecting from the Government. This implies that, export promotion and incentive programs must be tailored as per the requirements of currently exporting firms and the aspiring ones.

Research Objective 7: Models that explains Internationalisation behaviour of SMEs

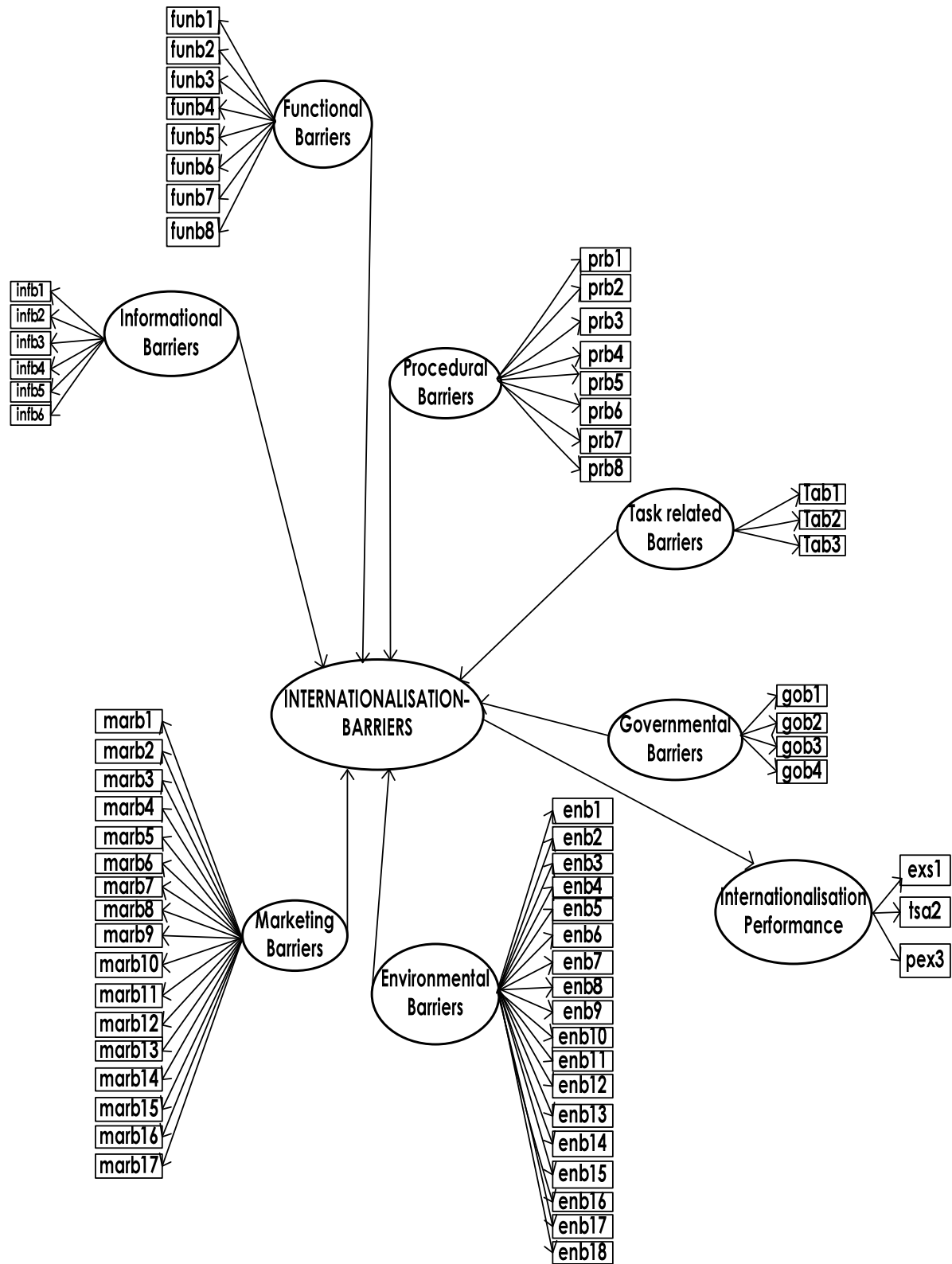
In order to achieve this objective, the hypothetical model of this current study indicated in chapter 1 (Figure 1.1, p.5) was cascaded into different variables that makes measurement of theoretical constructs easy. The following Figures (Figure 8.2a and 8.2b) depict the adopted models that explain internationalisation process of Ethiopian SMEs through lenses of determinants (motives) and impediments (barriers).

Figure 8.2a: The adopted model of the relationship among variables based on perceived determinants of SMEs internationalisation decision.



Source: Author's own construction (2015)

Figure 8.2b: The adopted model of the relationship among variables based on perceived barriers of SMEs internationalisation decisions and performance.



Source: Author's own construction (2015)

The final secondary research objective was to identify areas of future research in the field of firm internationalisation with special emphasis on SMEs. To this end the research findings clearly show that a deeper understanding of internationalisation of Ethiopian manufacturing firms is needed. This objective was achieved due to the fact that the author of this current study concluded the work by suggesting directions for future research in acknowledgment of the limitations of the study.

Having drawn conclusions regarding the various secondary research objectives, it can be seen that the primary research objective of investigating firm internationalisation motives and barriers of manufacturing SMEs in the Leather and Leather goods Industry in Ethiopia was achieved. Not only were the determinants in the form of export stimuli and impediments in the form of barriers to firm internationalisation were identified, inferential statistics were obtained to find significance among various internal and external motivating and barrier factors of SMEs internationalisation.

8.6 RECOMMENDATIONS

From the findings presented in chapter 7 and the summary and conclusions presented in the current chapter, several recommendations can be made to alleviate the problems stressed in the findings of this current study:

The study recommends that SMEs before approaching export market should obtain reliable information on market opportunities, as information barrier emerged as one of the barriers hindering internationalisation of SMEs in Ethiopia. Thus it is highly recommended that the different agencies that support SMEs development efforts, whether they be chambers of commerce, other business organisations, SMEs associations, trade promotion agencies or the country's commercial representatives abroad, can play a significant role in helping SMEs in accessing relevant market information.

It was concluded that, SMEs not only have more difficulties in financing their international activities, they often have limited international experience in their

management team. Thus, managerial skill training and experience sharing must be considered. Moreover, transaction costs to doing business was also identified as critical problem of studied SMEs in the current study, thus telecommunications and other advanced technologies must be more strengthened in Ethiopia.

There should be a sound collaboration between governments, international agencies and the private sector to address these issues with the view to reaping the significant potential benefits that should accrue from the creation of a simpler, more business friendly, and more integrated Ethiopian economy at international levels.

Another key recommendations emanating from this current study is that Government should encourage vibrant policy on export towards enabling environment for export promotion in order to mitigate barriers occurred due to, Competition policy, legislative and regulatory frameworks, telecommunications infrastructure and research.

The quality of the export item needs improvement and productivity needs to be maximised. Ensuring on quality standards and producing in the way the international market require, brings about a better position in the international market. Working on the quality is expected both from the SMEs perspective as well as from the government side. The government is expected to do a lot on those areas. Helping those SMEs and ensuring quality products with efficiency makes the country more competitive.

SMEs need to focus on value adding on the products by processing and packaging that would increase their competitiveness in the international market. Learning from the experiences of the developed countries SMEs would help to transfer knowledge to Ethiopian SMEs. The government needs to make arrangements and agreements for Ethiopian SMEs to share the experience of the developed countries SMEs. This recommendation was justified by Exploratory Factor analysis result depicted in Table 7.16, p.304, as one of the

external factor for the involvement and competitiveness of Ethiopian SMEs emanates from domestic government a stimulus which was explained by 8.03% of the total variance (Table 7.16). Moreover, the findings shown in Table 7.16 revealed that, Quality requirement and standards in the target market which requires up to date technology is one of the challenges faced by Ethiopian SMEs as confirmed by 55% of respondents.

The policy makers need to see the impact of the exchange rate and shortage of foreign currency on export performance. By increasing the production level of the country to the international market demand, the country can benefit to sell more if a less valued currency is adjusted. But, having adequate production for the international market is the first thing to do.

Financial constraints were mentioned as one barrier of SMEs internationalisation in Ethiopia. Government should support small business to export as much as they do with big business. Because encouraging SMEs involvement in to the international market would benefit a lot. Currently the government is undertaking huge infrastructure projects, so that financing all the SMEs is a bit challenging, however, by working with different international organisations which support internationalisation of SMEs, a support for Ethiopian SMEs can be provided. In addition to the financing institutions, the country needs to have different institutions which work to find market for SMEs, export promotion activities and related services. This recommendation was justified by descriptive analyses results as shown in the previous chapter.

Moreover, the findings in response to Governmental support, as seen in Table 7.7, p.291, initiatives that enhance working capital (77%), help to resolve logistics and transportation issues (67%), loans at a discounted rate (53%), assistance to develop capabilities (48%), market research or other internationalisation-related training workshops (43%), and trade fairs/missions to source for business leads (42%) were highlighted by exporting SMEs as an aspect that needed to be concentrated on by the Government. In addition the result of logistic regression as seen in Tables 7.22, p.316 and 7.23, p.319 confirmed that,

domestic government related factors (Wald=4.746, $p<.029$) and Foreign government related stimuli factors (Wald=8.066, $p=.005$) are significant factors. On the other hand financial barriers as indicated in functional barriers factor (Wald=15.945, $p=.023$) found to be significantly hindered internationalisation of firms from Ethiopia.

Although the demand for Leather and leather goods in the international market is available, being competitive is one of the best strategies for success. Producing to the level that the market require and be able to deliver quality product with a competitive price is one of the best approach that all the concerned bodies need to work with. The Government as well as the SMEs need to prepare for meeting demands of Leather related products.

The SMEs and the export association and other concerned government bodies need to work in collaboration. The government is expected to provide a variety of support and assistance to enhance the internationalisation performance. in order to have a wider business transactions all over the world, the country needs to be a member of WTO (world trade organisations) and to have a harmonised trade relations being a member of ICC (international chamber of commerce) is recommended and the government should keep on working on the issue.

It was identified that Ethiopian SMEs have knowledge related challenges to internationalise their business. It is highly recommended that, Government should build capacity on training SMEs to ensure the sectors Mangers to avail from international operations. Since both exporting and non exporting SMEs were expecting different support programs to some extent, thus it is wise to formulate customised support schemes.

It was found out that both exporting and non-exporting SMEs expect different support from the Government and support agencies. Thus, these organisations should therefore make sure that local enterprises have access to the same incentives given to the large and medium enterprises, specifically those

incentives that would influence their financial status such as short and long term loans, credit guarantee assistance offered to exporters. On the same token, environments do not inhibit access to global markets. Efforts by governments seeking to ease such barriers through the WTO Round and the appropriate channels would benefit SME trade and FDI involvement. In this regard it was found out that, the Government through different international trade agreements able to manage some of the challenges.

Worth mentioning is that, as shown in previous chapters, the European preferential markets through everything but arms act has given non quota and tax free opportunities for Ethiopia, other preferential markets with tax-free and quota-free also came from the USA government through the African growth and opportunity act (AGOA), the Japanese government, the Austrian government and the Canadian government. Furthermore, by being member of the regional preferential market for east Africa, which is the common market for eastern and southern Africa (COMESA), enabled Ethiopian Government to ease trade relations with neighboring countries, even if the result so far found to be insignificant as the findings of this current study confirmed only 15% of Ethiopia's destination market is that of neighboring African countries.

Finally, international organisations which are working in the area of SMEs development need to support Ethiopian SMEs for a better performance and helping to have credit facilities for their internationalisation activity would benefit for the country's economic development.

8.7 LIMITATIONS OF THE STUDY

Although this study has achieved its overall aim of acquiring a deeper understanding of internationalisation process of Ethiopian SMEs and related objectives of drivers, barriers, and government export promotion related issues, one also has to acknowledge limitations in this empirical study. As it was mentioned in methodology chapter, this study was conducted with all the required considerations for quality, rigour, the research design and

methodologies however, as is the case with any social science research, this research brought with it the following inevitable limitations that needed to be considered along with the findings:

- The first limitation of this study is that, since the study was carried out on SMEs operating in one country, Ethiopia. Hence, caution should be taken when generalisation across cultures is considered and the findings cannot be generalised to fit all developing countries. Moreover, within Ethiopia this study only focused on SMEs from one geographical area, the capital city Addis Ababa and surrounding industrial zones, therefore the research results may not be generalisable to other areas. For example, the industry operating environment may not be the same in the capital as in other industrial areas of Ethiopia. In general the support received by SMEs in the capital city of Ethiopia may not be the same as the support received in other parts of the country.
- The second limitation was, due to absence of integrated database of SMEs in the studied area, therefore, the current researcher found it difficult to obtain a comprehensive database. Consequently the research sample was taken from one data source, which is ministry of industry, central statistical agency whose criteria outline that an enterprise has to be SMEs and operating in the Leather and Leather goods industry currently active internationally as well as non-exporting.
- An unexpected finding in this study was that a number of non-exporting SMEs had exported at one stage however; they were not exporting at the time of this current study. This had not been anticipated beforehand therefore, the question had not been asked as to why they were no longer exporting. This was an opportunity that was lost in this current research, as a more in-depth study could have been performed on these SMEs.
- As to the conceptual and theoretical limitation concerns, the study focused on export as means for SMEs penetration in to the global market.

Other global market entry modes of joint venture, FDI, management contracting and the like were not treated in this study. The study only focused on one aspect of firm internationalisation (outward internationalisation through export). Since it was a cross-sectional research it lacks the quality of longitudinal survey that has the capacity of exhibiting behavioural patterns of firms over a long period of time.

- A further limitation is the key informant technique followed which may pose personal bias in the findings besides the entire scientific rigor taken care of in this current study. Moreover, the cross-sectional nature of study which was done within a short period of time may not give the whole picture of firm's gradual development in international involvement.
- In relation to measurement and operationalisation of constructs used in this current study, one limitation was due to the fact that, the researcher used subjective measures for the export performance variable; however, it would be interesting, for future research, to use more objective data.
- As to target population and sampling of this current study concerns, the researcher did not divide the sample into different industry sectors so as to perform a comparative analysis on the industry sectors that were exporting and those that were not. It only focused on a single manufacturing industry with no further considerations given to service sector.
- Finally, the conclusions drawn from the findings of this current study as shown in the previous discussions, are based on an extensive review of related literature, questionnaire based survey and a case study, which means that the conclusions are linked to these three sources only. One is not generalising that what was concluded in this current study automatically applies to all other enterprises in manufacturing industries. Instead this current study is appealing to the concept of reliability: that is what was researched in this study will be of interest to other researchers and enterprises interested in internationalisation of SMEs and that it will add, incrementally, to the patchwork of research in the areas of

international business and entrepreneurship in the context of developing economies.

8.8 RESEARCH IMPLICATIONS

Besides its aforementioned limitations the study made different implications as to existing knowledge, praxis and policy as well as suggestions for future lines of investigation. The following are implications made as a result of the current study's output.

8.8.1 MANAGERIAL IMPLICATIONS

The following managerial implications are forwarded from the results and conclusions:

- The findings of this current study revealed that, the internationalisation process of SMEs differs from the internationalisation of larger firms, because of resource limitations, the liability of foreignness and newness and the importance of the owner/ manager.
- The most important advice that managers/owners of the firms studied want to spread to other Ethiopian SMEs who want to profit from international market involvement is that entrepreneurial orientation, use of human resources and information seeking are the key to success. Therefore, the firms need to change staff work habits and style, improve their analysis skills, and update their knowledge.
- Their management staff should be given incentives to improve their knowledge of the international market and management capability by participating in industry forums, monitoring international market news and updates.
- They should actively gather information and knowledge from a variety of sources such as Ethiopian communities overseas, consulates of different countries, foreign market visits, trade fairs, and online information

sources. Moreover, in order to exploit opportunities that are available, SMEs managers are expected to be alert about Government export promotion programs, be active members of different industry associations, and conduct careful international market research before embarking on a given internationalisation strategy in order to avoid costs.

- Since the business environment is continuously changing SMEs managers should be alert about internal and external environmental changes that may pose risks to their company. This helps them to be proactive to changing situations or they can quickly adapt to new changes. Thus, in order to correctly identify situational changes and understand what opportunities and threats the changes bring to their business so that they can adapt to and benefit from the changes.
- Ethiopian SMEs in manufacturing industry should actively seek more information input from different reliable sources, improve their decision making and market analysis skills through attending capacity building training and making their business process formal and avoid unplanned activities.

8.8.2 POLICY IMPLICATIONS

Internationalisation is a new phenomenon especially to Ethiopian SMEs due to the fact that the sector was dominated by large companies for long. However, in recent years more SMEs have been involving in export trade besides all the challenges discussed in the findings of this current study. Derived from the findings of the study this section provides public and company policy makers with valuable guidelines for the formulation of suitable internationalisation strategies and national export assistance programs. Accordingly, if policy makers want to encourage Ethiopian SMEs to engage in export activities, they should devise measures to make it more profitable for SMEs to export than inward internationalisation. What Ethiopian SMEs need the most now is largely export financing opportunities and export infrastructure. Both of these are

public goods that require substantial initial investment, but once they are in place, they can be used by many firms.

As shown in chapter 2 of this current study there are different export promotion efforts made by Ethiopian Government and donor organisations supporting Ethiopian Government, but what firms have received so far is too general and often at macro level which targeted large firms in most cases. Thus, EthiopianSMEs have not been able to actualise the government's support due to its limited applicability to their business situations.

Therefore, providing them with customised services would be helpful. Furthermore, the government could enable these EthiopianSMEs to capture international business opportunities by relaxing tax and foreign currency control as well as introducing further reforms to reduce bureaucracy and make customs clearing procedures more responsive. To reduce SMEs cost of doing business, the government should launch campaigns to promote image of the country in areas where it has comparative advantages and strengthen the logistics infrastructure of the country. It should also have policies to protect Ethiopian SMEs against political risks and trade restrictions imposed by some neighbouring countries.

Another important policy issue is that Ethiopian Government must strengthen entrepreneurship training and capacity building to create competitive labour force. Entrepreneurship training system must be based on market-driven curricula rather than following rigid content guidelines that must be approved by the ministry of education and training. Furthermore, business education should highlight the practical benefits of working with business plans and give entrepreneurs training in the field of business planning, risk management and market research

Finally, the role Government in promoting internationalisation of firm in a country ends up becoming a participator, planner, controller and/or stimulator. Such intervention from governments can be categorised into three forms:

- Government policies that encourage or facilitate international/export marketing transactions, for example trade liberalisation policies. Government policies that impede or hinder international/export marketing transactions.
- Government policies that encourage competition, by motivating domestic private businesses to compete with foreign firms. All these three issues were addressed in the findings of this current study. Therefore, all these three aspects must be considered while formulating policies in relation to export promotion.

8.8.3 CONTRIBUTION TO KNOWLEDGE

To date, the work produced by other researchers has concentrated on internationalisation of large mechanised firms. This current study, on the other hand, differs in the following respects, focused on SMEs motives and barriers including the role of Government by using pragmatic approach through mixed research methods. Thus, the importance of this study, compared to what has been produced hitherto, lies in providing holistic view of internationalisation of Ethiopian firms.

The review of literature made it clear that SMEs internationalisation theory is fragmentary in the world of international business and that there is an acute shortage of in-depth research of SMEs internationalisation from developing economies. This study has redressed that anomaly in a number of valuable ways. First, the review of literature provides a critical investigation of firm internationalisation theory pertinent to SMEs involvement to international trade. Knowledge derived from this review of literature can educate and further inform debate on theories and models of firm internationalisation, the drivers and barriers to becoming involved in internationalisation. Too often, literature uncritically lists drivers and barriers of firm internationalisation in the context developing countries, failing to give robust structure of these barriers.

This current study is unique in its nature that, no other researcher has carried out a study of such depth within Ethiopian manufacturing sector, surveying exporting and non-exporting firms and interviewing experts and export managers on internationalisation issues, including issues surrounding drivers and barriers to SMEs internationalisation. The richness of information provided as a result of this current study is, without doubt, fascinating. The problems addressed, in terms of their collectivity, are unique in one empirical study in firm internationalisation: internationalisation patterns and strategy, drivers, barriers, government export promotion and future directions. The findings help in understanding issues related to these issues, and provide other researchers with a unique spotlight on two different types of stakeholders within a given industry (i.e. exporting and non-exporting SMEs).

8.8.4 SUGGESTIONS FOR FUTURE RESEARCH

Although this current study has achieved its objectives, from the research findings, conclusions and limitations discussed above, various suggestions for future research opportunities can be offered.

Since this current study was a cross-sectional study which was conducted within short period of time it is difficult to grasp the dynamics of firm internationalisation for a long period of time, thus future research must consider conducting a longitudinal study in order to understand the dynamics of SMEs internationalisation motives and barriers.

Since this current study was based on one industrial business sector, future research will be more interesting if it focuses on complementary study that incorporates firms from different industries.

Evaluating the impact of export support for the internationalisation activity can also be one area of research in the future. In addition the impact of networking on internationalisation performance of SMEs can also be another area of research. Another recommendation for future research is to assess the impact of entrepreneurship education on owner/manager's decision to export.

This current study was based on data from one country setting thus, the findings cannot be generalised to fit all developing countries. Therefore, comparative future studies could benefit from cross-country comparisons in this respect and worth investigating to explore patterns of similarity and differences between the internationalisation process of Ethiopia SMEs and that of SMEs from other developing economies. Furthermore, another interesting research direction is to extend these research findings to study internationalisation development for other organisational processes in Ethiopian SMEs.

The sample for this current study was made up of respondents residing in Addis Ababa and nearby industrial areas, since these were the areas where the most manufacturing industries in the Leather sector is said to be found. However, in order to get an overall Ethiopian perspective, future researchers might wish to consider broadening the sample frame to include all industrial regions with in Ethiopia.

Finally, analysis of this current study was based on retrospective data, although this weakness was minimised by addressing the survey to founders or managers involved in internationalisation decisions.

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APPENDICES



Appendix-A SURVEY PARTICIPANT INFORMATION SHEET

Research Study title: Determinants and Impediments in the Internationalisation process of Small and Medium-Sized Manufacturing Enterprises in Ethiopia

Principal Researcher's name: Yehualashet Demeke Lakewe-mail-yesdk2000@gmail.com

Telephone:+251-0920911346/0911740479

Researcher's relationship to UNISA: Postgraduate Student/Doctoral

Research Supervisor: Prof GE CHILOANE-TSOKA

(1) Invitation-My name is Yehualashet Demeke. I am conducting research on "Determinants and Impediments in the Internationalisation process of Small and Medium-Sized Manufacturing Enterprises in Ethiopia" through the university of South Africa, College of Economic and Management Science department of Business Management. Thus, I would like to invite you to take part in my PhD research study that seeks to examine the internationalisation patterns and challenges faced by Ethiopian SMEs operating in the leather and leather products industry.

Before you decide I would like you to understand why the research is being done and what it would involve for you. I personally come to your office or my research assistant will go through the information sheet with you and answer any questions you have. Before you decide it is important for you to understand why the research is being done and what it will involve. Please take time to read the following information carefully and discuss it with others if you wish. Ask the researcher if there is anything that is not clear or if you would like more information.

(2) Who is carrying out the study? The research is being conducted by Mr. Yehualashet Demeke, lecturer at Adama Science and Technology University. This research forms part of my Doctor of Administration in Business Management studies under the supervision of Professor, Chiloane Tsoka.

(3) Description of the proposed study This study proposes to investigate the internationalisation behavior, pattern, speed, entry mode and scope of SMEs in the manufacturing industries and to arrive at a better understanding on what affects the internationalisation process of Ethiopian SMEs.

(4) Why have I been invited to participate in this study? You were selected as a possible participant in this study because of your experience and leadership position in the firm. There are also 57 other participants who will participate in this study. All target firms were selected randomly among other firms in the leather industry.

(5) Do I have to take part? Your participation in this study is voluntary. While I would be pleased to have you participate I respect your right to decline. 'It is up to you to decide whether or not to take part. If you do decide to take part you will be given this information sheet to keep (and be asked to sign a consent form) and you can still withdraw at any time without it affecting any benefits that you are entitled to in any way. You do not have to give a reason.'

(6) What does this study involve? As a participant in this study, you will be involved in survey. You will have enough time to fill in the questionnaire and hand in to the field worker based on prior agreement. Depending on your interest you can also involve in the second phase of the study which follows the survey result.

(7) What time the study will take? The survey will take roughly 40 minutes to complete. Important demographic information will be collected. This will consist of your firm international business experience, business line, type of company etc. as it is necessary to provide group related statistics. No other personal information will be collected by the researcher.

(8) What are the possible risks and benefits of participation? In this survey questionnaire there is no discomforts, inconveniences and potential risks that the participant may experience. There are no foreseeable risks or discomforts for these surveys. Possible probability of inconvenience has been minimized by the researcher while designing the survey instrument.

Possible Benefits: When your participation is complete, you will be given an opportunity to learn about this research, which may be useful to you in your managerial career and internationalization strategy or in understanding the global situation and local realities.

(9) Will I incur any costs by participating in the study? There are no costs to you for your participation in this study beyond the time and effort required to participate in the survey described above. You will be given the questionnaire and fill out without risking your critical time.

(10) Confidentiality and disclosure of information The confidentiality of all recorded information will be maintained to the fullest extent possible. Responses you will give to questions will be coded in such a way that your identity will be concealed.

(11) Responsibilities of the Researcher It is my duty to make sure that any information given by you is protected. Your name and other identifying information will not be attached to data collected.

(13) Responsibilities of the Participant It is your responsibilities to provide one appropriate answer to each question that are based on your organization's practices and that you answer all the questions.

(14) Can I withdraw from the study? Participation in this study is voluntary - you are not under any obligation to consent and - if you do consent - you can withdraw at any stage.

Opportunities to be informed of Results: If you wish to be told the results of this research, please contact:

Principal investigator: Mr. Yehualashet Demeke Phone +251-0920911346 e-mail-yesdk2000@gmail.com

I will either meet with you or direct you to where you can read a copy of the results. Up on request executive summary of the finding will be made available to participants.

How can I obtain further information? If you would like to know more at any stage, please feel free to contact either the researcher or research supervisor, Professor Chloane Tsoka (e-mail-chiloge@unisa.ac.za)

What can I do if I have a complaint or a concern? Any concerns or complaints about the conduct of this study should be directed to the:

Mr. Yehualashet Demeke Lakew

PhD scholar

College of Economic and Management Science Department of Business Management

University of South Africa (UNISA) e-mail-yesdk2000@gmail.com

Telephone- +251-0920911346/0911740479

Any complaint will be investigated promptly and you will be informed of the outcome.

If you wish to take part in it, please sign the separate consent form.

Thank you for helping with this research project

This information sheet is for you to keep.

Appendix- B SURVEY INSTRUMENT COVER LETTER

Date:-----

To:-----

Addis Ababa

Dear Sir/Madam;

I am a Phd Scholar at the University of South Africa (UNISA) College of Economic and Management Science Department of Business Management, South Africa and a lecturer at Adama Science and Technology University (ASTU), Ethiopia. At present I am conducting research study on "Determinants and Impediments in the Internationalisation of Small and Medium-sized Manufacturing Enterprises in Ethiopia". This research project is fully supervised by UNISA School of Economic and Management Science and my supervisor Professor Chloane Tsoka.

In the study, Leather and Leather Products industry is targeted by the researcher motivated by the huge potential of the area and current attention given to the leather sector by the government of Ethiopia. On top of this fact Small and medium sized manufacturing enterprises, and thereby the majority of Ethiopian Leather and Leather goods producers, play a key role in securing a positive development of the national economy. Considering such a development, internationalisation through export is often viewed as a determining factor. Thus, together with my supervisor, I am conducting a study focused on particularly internationalization motivating factors, internationalisation strategy and patterns, and potential internal and external barriers affecting internationalisation process among Leather and leather goods producers in Ethiopia.

The purpose of this study is to gain a deeper understanding on the internationalisation pattern and barriers that hinder SMEs internationalisation process in Ethiopia. The outcomes of the study will be significant for the international involvement of Ethiopian SMES. In addition the new and extended knowledge within this area will lead to increased understanding of the industry among policy makers, trade representatives, and researchers. On the same token the result will benefit the owners and managers of such firms, offering useful guidelines for future internationalisation.

Thus, you are being kindly invited to participate in this survey whether your firm is currently engaged in an international market or not. As a researcher, I strongly believe that your experience and knowledge will make a substantial contribution to the success of this study. So I would appreciate if you could assist my research by completing the enclosed questionnaire. Estimated time to complete the questionnaire is 40 minutes. All the information given will be kept strictly confidential, unless you give written permission for your name or company's name to be disclosed. Final summary of my findings will be made available to you up on request, in appreciation of your contribution.

I can be contacted via e-mail and phone at the following address. Please do not hesitate to contact me at any time if you need further explanation. I would greatly appreciate your cooperation and contribution and extend my heartfelt thank you in advance for your assistance.

Yours sincerely,

Yehualashet Demeke LakewPhD scholar

College of Economic and Management Science Department of Business Management

University of South Africa (UNISA)

[e-mail-yesdk2000@gmail.com](mailto:yesdk2000@gmail.com) Telephone- +251-0920911346/0911740479



APPENDIX-C-RESEARCH PARTICIPANT CONSENT FORM

PLEASE READ THIS DOCUMENT CAREFULLY. YOUR SIGNATURE IS REQUIRED FOR PARTICIPATION. YOU MUST BE AT LEAST 18 YEARS OF AGE TO GIVE YOUR CONSENT TO PARTICIPATE IN RESEARCH. IF YOU DESIRE A COPY OF THIS CONSENT FORM, YOU MAY REQUEST ONE AND I WILL PROVIDE IT.

Research Study title: Determinants and Impediments in the Internationalization process of Small and Medium-Sized Manufacturing Enterprises in Ethiopia

Principal Researcher's name: Yehualashet Demeke Lakew

e-mail-yesdk2000@gmail.com Telephone:+251-0920911346 P.O.Box 1888 Adama Ethiopia

Researcher's relationship to UNISA: Postgraduate Student/Doctoral

Research Supervisor: Prof GE CHILOANE-TSOKA

1. I have read the Information Sheet for this study and have had details of the study explained to me.
2. My questions about the study have been answered to my satisfaction, and I understand that I may ask further questions at any time.
3. I also understand that I am free to withdraw from the study at any time or to decline to answer any particular questions in the study.
4. I agree to provide information to the researchers under the conditions of confidentiality set out on the information sheet.
5. I wish to participate in this study under the conditions set out in the Information Sheet.
7. I consent/do not consent to the information collected for the purposes of this research study to be used for any other research purposes.
8. I confirm that I have read and understand the participant information leaflet for this study. I have had the opportunity to ask questions if necessary and have had these answered satisfactorily.
9. I understand that my participation is voluntary and that I am free to withdraw at any time without giving any reason. If I withdraw my data will be removed from the study and will be destroyed.

Based upon the above, I agree to take part in this study.

Participant's Name: _____

Participant's Signature: _____

Date: / / _____

Contact details: _____

Researcher's Name: _____

Researcher's Signature: _____

Individual obtaining consent..... Date..... Signature.....

A copy of the signed and dated consent form and the participant

Information leaflet should be given to the participant and retained by the researcher to be kept securely on file.

APPENDIX-D- SURVEY INSTRUMENT

Survey Questionnaire to be filled by Export Managers/owners/Managers of SMES in Leather and Leather Products manufacturing Firms in Ethiopia

Research Study title: Determinants and Impediments in the Internationalisation process of Small and Medium-Sized Manufacturing Enterprises in Ethiopia

**Principal Researcher’s name: Yehualashet Demeke Lakewe-mail-yesdk2000@gmail.com
Telephone:+251-0920911346/0911740479 Adama Ethiopia**

Researcher’s relationship to UNISA: Doctoral Student

Research Supervisor: Prof GE CHILOANE-TSOKA

The objective of this survey is to assess the patterns of SMEs internationalisation and identify the challenges faced by SMEs operating in the leather sectors at Addis Ababa and surrounding industrial areas. The survey questionnaire is prepared to gather primary data input for writing PhD thesis by the researcher.

Given your experience with the company, the researcher believes that you would be in a good position to share knowledge in this area. I would be extremely grateful for your participation in this survey, which will require approximately 40 minutes of your time. Your inputs will be invaluable in helping student researcher to obtain a perspective on the needs and challenges of SMEs which will subsequently lead to the identification of policies that may better address the challenges encountered when internationalising.

This study is envisaged to meet the following key objectives:

- o To assess internationalization behaviour of SMEs in Ethiopia and the determinants.
- o To explore the factors that hinders the internationalisation process of SMEs in Ethiopia.
- o To examine the relationship between exporting barriers and exporting performance of Ethiopian SMEs.
- o To point out possible differences from SMEs managers’ perspectives towards exporting barriers, ranging from non-exporter to exporter.
- o To develop an integrated model that explains SMEs internationalization behaviour for the manufacturing sector within the Ethiopian context.

Thus, it would be highly appreciated if you could spare your valuable time and fill up the questionnaire. Your genuine response to the questionnaire, as a manager/owner, is therefore very important to the validity of this research. I would like to assure you that all responses will only be used for academic purpose and are of kept anonymous. Moreover, Confidentiality in respect of information provided by the respondents shall be strictly maintained. Therefore, for purposes of maintaining anonymity and avoiding biased data analysis, respondents may not expect to disclose their names. In addition you will be briefed about the study through participant information sheet complemented by personal explanation. If you decide to participate you will be asked to sign participant consent form.

PART I: GENERAL INFORMATION

1) Gender 1) Male 2) Female

2) What is your job function within the business (mark all that apply):

_____ Investor/Owner

_____ General manager

_____ Commercial manager

____ Manufacturing / Production manager

____ Marketing manager

____ Other (please indicate _____)

3) The years you have worked for this company:

Under 2 years ____ 3 to 5 years ____ 6 to 10 years ____ over 10 years ____

4). Your educational level and Fields of Study?

____ Below diploma _____ (field of study)

____ Diploma _____ (field of study)

____ First Degree _____ (field of study)

____ second degree _____ (field of study)

____ PHD _____ (field of study)

5). Have you ever been to foreign country before you joined or established the current company? _____ If yes for how long you stayed abroad _____?

6) In what year was your business established? _____

7) Is the business:

Ethiopian owned

Foreign owned company

Jointly owned company

8) In the Leather and Leather products industry of Ethiopia which product lines represent your company (you can choose more than one?)

Tannery

Leather Footwear

Leather garments/bags/belts/gloves etc

9) Number of employees in your company:

1 -9 10-24 25- 49 50-99 100 - 200 over 200

10) Are you currently selling goods to foreign markets?

Yes No

11) If says No to Q9, have you ever sold goods abroad?

Yes

PART II: MOTIVATING FACTORS FOR FIRM INTERNATIONALISATION

With reference to your overall business experience in various markets, please indicate on a scale of 1 to 5, how important you perceive each of these internal and external motivating factors grouped under different dimensions as stimuli for firms go global. (1=Least Important; 5=Very Important)

	INTERNAL EXPORT STIMULI DIMENSIONS	Least Important1	2	3	4	Very Important5
	MANAGERIAL					
IMES1	Utilization of special managerial talent/skills/time					
IMES2	Hire skilled human resources					
IMES3	Management's international experience and knowledge					
IMES4	Managers export orientation					
IMES5	Management strong social network					
IMES6	Management's interest in internationalization					
	FINANCIAL					
IFES1	Stagnation/decline in domestic sales/profits					
IFES1	Possession of financial competitive advantage					
IFES1	Potential for extra growth from exporting					
IFES1	Potential for extra sales/profits from exporting					
	PRODUCTION					
IPES1	Accumulation of unsold inventory/overproduction					
IPES1	Smoothing production of a seasonal product					
IPES1	Achievement of economies of scale					
IPES1	Availability of unutilized production capacity					
	RESEARCH & DEVELOPMENT					
IRDES1	Possession of proprietary technical knowledge					
IRDES2	Possession of a unique/patented product					
IRDES3	Extending lifecycle of domestic products					
	MARKETING					
IMKES1	Ability to easily adapt marketing for foreign markets					
IMKES2	Availability of unique product					
IMKES3	Possession of a marketing competitive advantage					
IMKES4	Increasing competition in home market					
	EXTERNAL EXPORT STIMULI DIMENSIONS					
	DOMESTIC MARKET					
EDMES1	Unstable business environment in domestic market					
EDMES2	Inadequate demand in the home market					
EDMES3	Need to reduce dependence on/risk of domestic market					
EDMES4	Possibility of reducing the power of domestic customers					

EDMES5	unfavorable state of domestic economy					
EDMES6	Favorable foreign exchange rates					
EDMES7	Patriotic duty of local firms					
	FOREIGN MARKET					
EFMES1	Exploitation of new market					
EFMES2	Development of global networks					
EFMES3	Cultural similarity					
EFMES4	Unexpected international opportunity					
EFMES5	Geographical proximity to foreign markets					
EFMES6	Brand acceptance in foreign market					
EFMES7	Meeting international quality standards					
EFMES8	Possession of exclusive information on foreign markets					
EFMES9	Market demand for the goods abroad					
EFMES10	Good economic situation of clients' country					
EFMES11	Proximity to international ports/air ports					
	HOME GOVERNMENT					
EHGES1	Reduction of domestic institutional constraints					
EHGES2	Contact from the chamber of commerce or other support organization					
EHGES3	Encouragement by government agencies					
EHGES4	Access to Government export subsidies for international operation					
	FOREIGN GOVERNMENT					
EFGES1	Relaxation of foreign rules and regulations in certain foreign markets					
EFGES2	Reduction of tariffs/non-tariffs in certain overseas countries					
	INTERMEDIARIES					
EINRES1	Encouragement by industry, trade and other associations					
EINRES2	Encouragement by banks /financial institutions					
EINRES3	Existence of foreign sales agents					
EINRES4	Encouragement by brokers/agents/distributors					
	COMPETITION					
ECOES1	Intense domestic competition					
ECOES2	Competition with foreign firms					
ECOES3	Initiation of exports by domestic competitors					
ECOES4	Entry of a foreign competitor in home market					
ECOES5	Gaining foreign expertise to improve domestic competitiveness					
	CUSTOMERS					
ECUES1	Receipt of unsolicited orders from foreign customers					
ECUES2	Receipt of orders after participation in trade fairs					

ECUES2	Increasing Positive attitude towards Ethiopian products					
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PART III-ENTREPRENEURIAL-ORIENTATIONOF EXPORTERS/NON- EXPORTERS

With reference to the extent of your firm's entrepreneurial orientation towards overseas market, please indicate on a Scale of 1 to 5, the level of your agreement or disagreement regarding the existence or absence of each of these 19 characteristics.(1=Strongly Disagree; 5=Strongly Agree)

	INDICATORS OF INTERNATIONAL ENTREPRENEURIAL ORIENTATION	Strongly Disagree1	2	3	4	Strongly Agree 5
IIEO1	Initiate changes to which our competitors' react					
IIEO2	First to introduce new products/ services					
IIEO3	We take a very competitive oriented approach					
IIEO4	We consider new export markets to enter					
IIEO5	Exporting should not wait for domestic demand					
IIEO6	We are always alert in looking for export market information					
IIEO7	The export market is risky business					
IIEO8	Opportunities are greater than the risks					
IIEO9	Accept temporary losses for long-term market share					
IIEO10	We attend export market seminars and trade fairs					
IIEO11	We develop new products for export market					
IIEO12	The leader undertakes foreign visits for business					
IIEO13	We encourage foreign visits for key staffs within the firms					
IIEO14	Encourages language learning by key staffs within the firm					
IIEO15	We are eager to learn about foreign markets					
IIEO16	Seek to learn about foreign competitors					
IIEO17	The leader has extensive experience of foreign cultures					
IIEO18	Develops links with international business networks					
IIEO19	Encourages foreign visitors to the enterprise					

PART IV- FIRM INTERNATIONALISATION STRATEGY & REGIONAL CONCENTRATION

A).With reference to your preferred operational modes to join international market, please indicate on a scale of 1 to 5, how important you perceive each of these 5 entry modes are perceived as important by your firm. (1=Least Important; 5=Very Important)

(Exporter)

	INTERNATIONALISATION MODES	Least Important1	2	3	4	Very Important5
INM1	Exporting					
INM2	Own representatives					
INM3	Subcontracting/Licensing					
INM4	Joint venture					
INM5	Own investment abroad/Own production unit					

B) Please mention the most important markets by region in which your firm has operations with the relative year of entry and type of strategy?(Exporter)

Region	Most important markets	Year of entry	Strategy(Export, joint venture, Foreign partner, Representative office), Other if any
Africa			
America			
Asia-Pacific			
Europe			

C) With reference to your firm's export sales, total sales and profitability over the last three years, please indicate on a scale of 1 to 5 the performance level of your firm on each of these objectives and the extent to which performance affected by export barriers. (1= Significant Decline; 5= Significant Increase)/(Exporter)

	Export performance Indicators	Significant Decline1	2	3	4	Significant Increase5
123	Export sales					
124	Total sales					
125	Profitability due to exporting					

PART V- INTERNATIONALISATION BARRIERS/IMPEDIMENTS

A). Perceived internal export barriers:

With reference to your experience in domestic or international operations, please indicate on a scale of 1 to 5, the extent to which you perceive the following internal export barriers can be obstacles to the initiation or expansion of your firm's export activity(1= Least Obstacles ; 5= Major Obstacles).

	INTERNAL EXPORT BARRIERS	Least Obstacles 1	2	3	4	Major Obstacles5
INFB1	INFORMATIONAL					
INFB2	Lack of knowledge about export markets					
INFB3	Lack of knowledge on export assistance					
INFB4	Difficulty in making customer contacts					
INFB5	Insufficient information about overseas market					
INFB6	Difficulties in gaining access to some data sources					
INFB6	Inaccessible Market Information					
	FUNCTIONAL					
FUNB1	Lack of personnel trained to handle export operation					
FUNB2	Lack of Managerial Capacity					
FUNB3	Lack of managerial time to deal with exports					
FUNB4	Lack of financial resources to finance exports					
FUNB5	Shortage of working capital to finance					

	exports				
FUNB6	Lack of own internationally recognized brand				
FUNB7	Lack of excess production capacity for exports				
FUNB8	Lack of export skills				
	MARKETING				
MARTB1	Difficulty in matching competitors' prices				
MARTB2	Lack of knowledge on how exchange rates work				
MARTB3	Difficulty in supplying inventory abroad				
MARTB4	Difficulties in Offering technical/after sales service				
MARTB5	Difficulties in adapting export product design				
MARTB6	Difficulties in developing new products for foreign markets				
MARTB7	Unreliability in supply of raw materials				
MARTB8	Narrow product lines/absence of diversification				
MARTB9	Poor product quality				
MARTB10	Actual product unsuitable for overseas markets				
MARTB11	Challenges in meeting export packing/labeling requirements				
MARTB12	Difficulties in meeting export product quality/standards				
MARTB13	Lack of new technology				
MARTB14	Need to adapt promotional activity to the foreign market				
MARTB15	Complexity of foreign distribution/advertising channels				
MARTB16	Accessing export distribution/advertising channels				
MARTB17	Lack of competitive price to customers in foreign markets				

B. PERCEIVED EXTERNAL EXPORT BARRIERS:

With reference to your experience in domestic or international operation, please indicate on a Scale of 1 to 5, the extent to which you perceive the following external export barriers can be obstacles to the initiation or expansion of your firm's export activity(1= Least Obstacles ; 5= Major Obstacles).

	EXTERNAL EXPORT BARRIERS	Least Obstacles 1	2	3	4	Major Obstacles 5
	PROCEDURAL					
PROB1	High cost of establishing an office in the foreign market					
PROB2	Difficulty in accessing wholesalers and retailers in foreign markets					
PROB3	Difficulty in choosing a local representative in the foreign market					
PROB4	Unfamiliar exporting procedures/paperwork					
PROB5	Inadequate communications with overseas customers					
PROB6	Complexity of export documentations requirements					

PROB7	Slow collections of payments from abroad					
PROB8	Strict foreign rules and regulations					
TASK						
TASB1	Different foreign customer habits/attitudes					
TASB2	Intense competition in foreign markets					
TASB3	Lack of acceptance of Ethiopian products on the overseas market					
GOVERNMENTAL						
GOVB1	Complex government bureaucracy (long administrative procedure, laws and regulations)					
GOVB1	Lack of Ethiopian governmental incentives					
GOVB2	Inadequate government regulations and rules/export incentives					
GOVB3	Lack of financial assistance					
ENVIRONMENTAL						
ENVRB1	Currency fluctuations					
ENVRB2	Cultural differences overseas					
ENVRB3	Inadequate exchange rate policies					
ENVRB4	Special customer requirements					
ENVRB5	Inadequate foreign network of the banks you work with					
ENVRB6	Quality requirement and standards in the target market					
ENVRB7	Poor/deteriorating economic conditions abroad					
ENVRB8	High Tariffs and non-tariffs barriers					
ENVRB9	Foreign government restriction					
ENVRB10	Political instability in foreign markets					
ENVRB11	Unfamiliar foreign business practices					
ENVRB12	Different socio-cultural traits					
ENVRB13	Language differences overseas					
ENVRB14	High transportation costs & shipping arrangements					
ENVRB15	Unavailability of warehousing facilities abroad					
ENVRB16	Difficulties in warehousing and controlling the physical product flow in the foreign market					
ENVRB17	High insurance costs					
ENVRB18	Poor infrastructure					

PART-VI GOVERNMENT SUPPORT SOUGHT TO REDUCE BARRIERS OF SMES

INTERNATIONALISATION

With respect to your overall business experience in various markets, please indicate on a Scale of 1 to 5, how important you perceive each of these 18 Government initiatives are in aiding your competitiveness locally and in overseas markets. (1=Least Important; 5=Very Important)

	PERCEIVED GOVERNMENT SUPPORT	Least Important 1	2	3	4	Very Important 5
PGS1	Initiatives that enhance working capital for exporters/businesses					

PGS2	Loans at a discounted rate or risk sharing initiatives					
PGS3	Seminars/events to share economy/industry information					
PGS4	Online channels to obtain market updates					
PGS5	Trade publications, business leads and consultancy advice					
PGS6	Market research or other internationalization-related training workshops					
PGS7	One-on-one firm-specific market entry advice or assistance on developing market entry business studies					
PGS8	Guidance/incentives to cultivate internationalization capabilities					
PGS9	Access to overseas trade and related offices					
PGS10	Assistance with export and regulatory procedures and requirements					
PGS11	Assistance to resolve cross-border business-to-business disputes					
PGS12	Help to resolve foreign economy bureaucracy and red-tape					
PGS13	Trade fairs/missions to source for business leads					
PGS14	Assistance to develop capabilities					
PGS15	Assistance for local companies to develop a competitive edge					
PGS16	Help to facilitate or resolve logistics and transportation issues					
PGS17	Loans for working capital					
PGS18	Tax deductions on expenses incurred by firms in the foreign market					

Thank you, for taking your golden time in filling out this Questionnaire

The Principal Researcher:

Mr.Yehualashet Demeke Lakew

PhD scholar College of Economic and Management Sciences

Department of Business Management University of South Africa (UNISA)

e-mail-yesdk2000@gmail.com

Telephone- +251-0920911346

APPENDIX-E INTERVIEW REQUEST LETTER

Date/-----

Dear, SMEs Managers/Owners

Re: Request to interview you about your company

I am a PhD student at the University of South Africa (UNISA), College of Economic and Management Science Department of Business Management. As part of my PhD research study currently I am conducting research on SMEs internationalisation patterns and barriers in the leather sector of Ethiopia.

Thus, I need to get first-hand information from an experienced individual in the leather industry and I would like to request you to participate in this study as one of key informants.

I would therefore be very grateful if you could grant me a short interview of about 40 minutes. I would like to ask you about the patterns of your firm's international operation, challenges encountered, strategies followed and performance in national and international trade.

Your answers will help me in my data analysis on SMEs internationalization behavior and challenges encountered among manufacturing SMEs including your esteemed organization.

I will telephone you in advance of the interview and provide you information sheet regarding detailed information about the study to arrange a convenient interview time. Thank you in advance for your kind cooperation. I look forward to meeting you.

Yours sincerely;

Mr.Yehualashet Demeke Lakew

PhD scholar

College of Economic and Management Science

Department of Business Management

University of South Africa(UNISA)

e-mail-yesdk2000@gmail.com

Telephone- +251-0920911346/0911740479

APPENDIX-F INTERVIEW PARTICIPANT INFORMATION SHEET

Research Study title: Determinants and Impediments in the Internationalisation process of Small and Medium-Sized Manufacturing Enterprises in Ethiopia

Principal Researcher's name: Yehualashet Demeke Lakew

e-mail-yesdk2000@gmail.com Telephone:+251-0920911346/0911740479 Adama Ethiopia

Researcher's relationship to UNISA: Postgraduate Student/Doctoral

Research Supervisor: Prof GE CHILOANE-TSOKA

(1) Invitation

My name is Yehualashet Demeke. I am conducting research on "Determinants and Impediments in the Internationalisation process of Small and Medium-Sized Manufacturing Enterprises in Ethiopia" through the university of South Africa, College of Economic and Management Science department of Business Management. Thus, I would like to invite you to take part in my PhD research study that seeks to examine the internationalisation patterns and challenges faced by Ethiopian SMEs operating in the leather and leather products industry.

Before you decide I would like you to understand why the research is being done and what it would involve for you. Before you decide it is important for you to understand why the research is being done and what it will involve. Please take time to read the following information carefully and discuss it with others if you wish. Ask the researcher if there is anything that is not clear or if you would like more information. Take time to decide whether or not you wish to take part.'

(2) Who is carrying out the study?

The research is being conducted by Mr. Yehualashet Demeke, lecturer at Adama Science and Technology University. This research forms part of my Doctor of Administration in Business Management studies under the supervision of Professor, Chiloane Tsoka.

(3) Description of the proposed study

This study proposes to investigate the internationalization behavior, pattern, speed, entry mode and scope of SMEs in the manufacturing industries and to arrive at a better understanding on what affects the internationalization process of Ethiopian SMEs.

(4) Why have I been invited to participate in this study?

You were selected as a possible participant in this study because of your experience and leadership position in the firm. There are also 14 other participants who will participate in this study.

(5) Do I have to take part?

Your participation in this project is entirely voluntary. If you do agree to participate, you can withdraw from the project without comment or penalty. If you withdraw, on request any identifiable information already obtained from you will be destroyed. Your participation will involve an audio recorded interview to be held in a location and at a time convenient to you that will take approximately 1 hr of your time.

(6) What does this study involve?

As a participant in this study, you will be interviewed by the researcher. You will be informed in advance for preparation to avoid loss of information due to memorization.

(7) What time the study will take?

The interview will take roughly 1 hr to complete. Important demographic information will be asked in addition to main research question collected. This will consist of your firm international business experience, business line, type of company etc. as it is necessary to provide group related statistics. No other personal information will be collected by the researcher. The place of interview will be decided based on agreement between the respondent and the researcher.

(8) What are the possible risks and benefits of participation?

In this interview there are no discomforts, inconveniences and potential risks that the participant may experience. There are no foreseeable risks or discomforts for this semi-structured interview. There are no emotion laden questions in the protocol or there is no problem due to interviewer because the researcher himself will conduct the interview but assisted by field workers.

Possible Benefits:

When your participation is complete, you will be given an opportunity to learn about this research, which may be useful to you in your managerial career and internationalization strategy or in understanding the global situation and local realities.

(9) Will I incur any costs by participating in the study?

There are no costs to you for your participation in this study beyond the time and effort required to participate in the survey described above.

(10) Confidentiality and disclosure of information

All comments and responses will be treated confidentially. Any data collected as part of this project will be stored securely as per UNISA's management of research data policy. Any information obtained in connection with this research that can identify you will remain confidential.

The audio recording will be transcribed and retained at secured place and will be discarded after five years. The recording will be made available to a professional transcription service, who will provide the researcher with a transcription. The transcription research assistant will be required to sign a confidentiality agreement.

(11) Responsibilities of the Researcher

It is my duty to make sure that any information given by you is protected. Your name and other identifying information will not be attached to data collected.

(13) Responsibilities of the Participant

It is your responsibilities to provide reliable and authentic information independent of your personal interest or motives, make yourself separate from the organization while providing dependable and reliable information.

(14) Can I withdraw from the study?

Participation in this study is voluntary - you are not under any obligation to consent and - if you do consent - you can withdraw at any stage.

Opportunities to be informed of Results:

If you wish to be told the results of this research, please contact:

Principal investigator: Mr. Yehualashet Demeke Lakew

Phone +251-0920911346 e-mail-yesdk2000@gmail.com

Will I be recorded, and how will the recorded media be used?

The audio recordings of your activities made during this research will be used only for analysis and for illustration in conference presentations. No other use will be made of them without your written permission, and no one other than the researcher will be allowed access to the original recordings.

If you wish to take part in it, please sign the separate consent form.

Thank you for helping with this research project. This information sheet is for you to keep.

Yehualashet Demeke Lakew

PhD scholar College of Economic and Management Science

Department of Business Management University of South Africa (UNISA)

e-mail-yesdk2000@gmail.com Telephone- +251-0920911346/0911740479

APPENDIX-G CONSENT FOR PARTICIPATION IN INTERVIEW RESEARCH

PLEASE READ THIS DOCUMENT CAREFULLY. YOUR SIGNATURE IS REQUIRED FOR PARTICIPATION. YOU MUST BE AT LEAST 18 YEARS OF AGE TO GIVE YOUR CONSENT TO PARTICIPATE IN RESEARCH. IF YOU DESIRE A COPY OF THIS CONSENT FORM, YOU MAY REQUEST ONE AND I WILL PROVIDE IT.

Research Study title: Determinants and Impediments in the Internationalisation process of Small and Medium-Sized Manufacturing Enterprises in Ethiopia

Principal Researcher's name: Yehualashet Demeke Lakew

e-mail-yesdk2000@gmail.com Telephone:+251-0920911346/0911740479 Adama Ethiopia

Researcher's relationship to UNISA: Doctoral Student

Research Supervisor: Prof GE CHILOANE-TSOKA

I volunteer to participate in a research project conducted by Mr. Yehualashet Demeke from the University of South Africa. I understand that the study is designed to gather information about firm internationalisation determinants and impediments in the context of SMES. I will be one of approximately 15 people being interviewed for this research.

1. I have read the Information Sheet for this study and have had details of the study explained to me.
2. My participation in this study is voluntary. I understand that I will not be paid for my participation. I may withdraw and discontinue participation at any time without penalty. If I decline to participate or withdraw from the study, no one in the business sector will be told.
3. I understand that most interviewees in will find the discussion interesting and thought-provoking. If, however, I feel uncomfortable in any way during the interview session, I have the right to decline to answer any question or to end the interview.
4. Participation involves being interviewed by researcher from the University of South Africa (UNISA). The interview will last approximately 30-45 minutes. Notes will be written during the interview. An audio tape of the interview and subsequent dialogue will be made. If I don't want to be taped, I will not be able to participate in the study.
5. I understand that the researcher will not identify me by name in any reports using information obtained from this interview, and that my confidentiality as a participant in this study will remain secure. Subsequent uses of records and data will be subject to standard data use policies which protect the anonymity of individuals and institutions.
6. I have read and understand the explanation provided to me. I have had all my questions answered to my satisfaction, and I voluntarily agree to participate in this study.
7. I have been given a copy of this consent form.

My Signature **Date**

My Printed Name **Signature of the Investigator**

For further information, please contact:

Yehualashet Demeke Lakew

PhD scholar College of Economic and Management Science

Department of Business Management ,University of South Africa (UNISA)

e-mail-yesdk2000@gmail.com Telephone- +251-0920911346/0911740479

APPENDIX-H SEMI-STRUCTURED INTERVIEW PROTOCOL

Research Study title: Determinants and Impediments in the Internationalization process of Small and Medium-Sized Manufacturing Enterprises in Ethiopia

Principal Researcher's name: Yehualashet Demeke Lakew

e-mail-yesdk2000@gmail.com

Telephone:+251-0920911346/0911740479

P.O.Box 1888

Adama Ethiopia

Researcher's relationship to UNISA: Doctoral Student

Research Supervisor: Prof GE CHILOANE-TSOKA

Dear sir/ madam,

Dear respondents, this is a semi-structured interview protocol prepared to gather primary data for my PhD research project in the subject of Business Management. The study is firm level analysis. The level of analysis involved SMEs in manufacturing industry, especially leather and leather products industry and the owners or key managers of internationalised SMEs, non-exporting SMEs, ex-exporters, government agencies directly or indirectly associated with export promotion and management in Ethiopia. In an attempt to more specifically address this issue, I intend to do this research by narrowing down the study and focus on internationalisation motives and barriers by choosing Leather sector SMEs operating in Addis Ababa and surrounding industrial towns. The purpose of this interview protocol is only gathering primary data for academic research purpose, so it would be highly appreciated if you could spare your valuable time. The information obtained will be treated with the strictest confidentiality and will be used solely for this research purposes only. This research project will also involve semi-structured-interviews with the language teachers of Setswana in other grades after school hours. It is my presumption that the research findings will make a creditable contribution towards identifying patterns and behaviors as well as critical factors that hinder SMEs internationalisation in the context of Ethiopia. This result will serve as an input for policy formulation and further research on the same topic.

This study is envisaged to meet the following key objectives:

- To assess internationalisation behaviour of SMEs in Ethiopia and the determinants.
- To explore the factors that hinders the internationalisation process of SMEs in Ethiopia.
- To examine the relationship between exporting barriers and exporting performance of Ethiopian SMEs.
- To point out possible differences from SMEs managers' perspectives towards exporting barriers, ranging from non-exporter to exporter.
- To develop an integrated model that explains SMEs internationalisation behaviour for the manufacturing sector within the Ethiopian context.

Pre-interview Procedures to be followed:

The researcher himself will provide interview participant information sheet in advance of the interview. Key informants will be asked whether he or she needs any clarifications regarding the 'Information Sheet for the Interview'. If required, the researcher will clarify any points to be raised by the informant. After the details of the 'Information Sheet for the Interview' are understood by the informant and before commencement of the interview, the 'Informed Consent for Interviews' form needs to be completed. Run through this form with the informant, the researcher will delete whatever is required and ensure that informant sign interview participant consent form.

Following this pre-interview procedure, a brief explanation of the research project will be given to the informant and the in-depth interview will begins with the following questions in flexible sequential order.

PART I:GENERAL INFORMATION

1.NameoftheCompany(to be coded)_____

2. Year of foundation_____

3. Respondent position and responsibility _____

4. Respondent education and entrepreneurship training_____

5.Major products, markets, and customers

6.Experience in international markets_____

7.Number of employees

8.Year of company's first international operation (only for exporters)

In which country_____

9.Presently, in how many overseas countries are your product been marketed?

10.In addition to exporting, do your firm have other mode of international involvement, like joint venture, direct investment and/or contractual agreement overseas?

PART II: INTERNATIONALIZATION PROCESS OF ETHIOPIAN SMES

11. What motivational factors trigger SMEs firms to go international?

12. What are the factors in the international market that attracted your firm?

Which is the most important factor?

13. Extent of internationalization and how the process has developed?

14.Please could you tell me the most important markets by region in which your company has operations with the relative year of entry and type of strategy?_____

15. Difficulties firm had experienced during the internationalization process?

16. What market and industry factors in the domestic market that affect developing your business internationalization strategy?

17.What are the major market and industry factors in the foreign market that affect your internationalization process ?

18. What are the firm's internal factors that affect your firm's internationalization process?

19. Which of these internal factors are critical hindrances in the context of your firm?

20. What government support packages are there here in Ethiopia to support exporters and how you have been benefitted or not aware of it at all?

21.Is there any other factors or information you like to contribute on how Ethiopian manufacturing SMEs in the leather sector will be competent in global market?

******* THANK YOU FOR YOUR TIME *******

And be informed that a summary of the research is available if requested.

Yehualashet Demeke Lakew

PhD scholar

College of Economic and Management Science

Department of Business Management University of South Africa(UNISA)

e-mail-yesdk2000@gmail.com Telephone- +251-0920911346/

APPENDIX-J-RESEARCH DATA TRANSCRIBER (CO-CODER) CONFIDENTIALITY AGREEMENT

Study: [Determinants and Impediments in the Internationalisation process of Small and Medium-Sized Manufacturing Enterprises in Ethiopia]

I, _____ [name of research assistant], agree to assist Mr. Yehualashet Demeke, with this study by handling audio recording and transcribing the content of audio-taped sessions with participants. I agree that I will:

1. keep all research information shared with me confidential but not discussing or sharing the information in any form or format (e.g., disks, tapes, transcripts) with anyone other than the primary investigator of this study;
2. Keep all research information in any form or format (e.g., disks, tapes, transcripts) secure while it is in my possession. This includes:
 - keeping all transcript documents and digitized interviews on specified lad computers and files;
 - closing any transcription programs and documents when temporarily away from the computer;
 - Keeping and printed transcripts in a secure location such as a locked file cabinet; and
 - Permanently deleting any e-mail communication containing the data;
3. Give all research information in any form or format (e.g., disks, tapes, transcripts) to the primary investigator when I have completed the research tasks;
4. Erase or destroy all research information in any form or format that is not returnable to the primary investigator (e.g., information stored on my computer hard drive) upon completion of the research tasks.

Signature of the research assistant

Date

Signature of the primary investigator
Yehualashet Demeke Lakew
PhD scholar
College of Economic and Management Science
Department of Business Management
University of South Africa (UNISA)
e-mail-yesdk2000@gmail.com
Telephone- +251-0920911346/0911740479

Date

APPENDIX-K PERMISSION LETTER FROM INDUSTRY BUEAURAUE

OROMIA TRADE AND INDUSTRY BUREAU, ADAMA INVESTMENT OFFICE

 Waajjira Investimantii Bulchitinsa Magaalaa Adamaa የዲ.ግ.ሲ. ግብይትና ጥሬ ጥቅም Department Research Ethics Committee Department of Business Management University of South Africa	Ref. No <u>wz3/15/3/20/06</u> Date <u>15/7/2006</u> Adama Investment office Adama, Ethiopia Tell:-02211113191
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Subject: Confirmation of Cooperation

Mr. Yehualashet Demeke has requested permission to collect research data from small and medium-sized manufacturing enterprises through a project entitled "Determinants and impediments in the internationalization process of "small and Medium-Sized Manufacturing Enterprises in Ethiopia" "Adama Investment Office" have been informed of the purposes of the study and nature of the research procedures. We strongly believe that, the outcome of this study will benefit the industry a lot by providing up to date information for policy formulation.

We understand that Mr. Yehualashet will receive participant consent for all participants and have confirmed that he has the cooperation of enterprise managers. Mr. Yehualashet has agreed to provide to my office a copy of all University of south Africa Ethics Clearance office, stamped consent documents before he recruits participants on company .Any data collected by Mr. Yehualashet will be kept confidential and will be stored in a locked filing cabinet in his private office. Mr. Yehualashet has also agreed to provide to us a copy of the aggregate results from his study.

Thus, Adama Investment Office hereby confirms its cooperation in the above mentioned project and agrees in binding from to accommodate the researcher while he gathers data for the current study. If the Departmental Ethics clearance committee of the department of business management of UNISA has any concerns about the permission being granted by this letter, please contact my office.

With Kind regards.


 Kapsahun W/Rufaa'el Guta
 ካፕሳክ ሠ/ሩፋዕል ጊታ
 D/G Waajjira Investimantii
 የዲ.ግ.ሲ. ግብይትና ጥሬ ጥቅም



APPENDIX-L ETHICS CLEARANCE CERTIFICATE



23 April 2014



Ref #: 2014_CEMS_BM_006

DEPARTMENT OF BUSINESS MANAGEMENT RESEARCH ETHICS REVIEW COMMITTEE

To: Prof GE Chiloane-Tsoka – Postgraduate Supervisor (012 429 2008) for Mr Yehualashet Demeke Lakew – Student number: 50785192

From: Prof Watson Ladzani – Chairperson of the Departmental Research Ethics Committee – Department of Business Management

Subject: FEEDBACK ON YOUR STUDENT'S APPLICATION

This is to certify that the application for ethics clearance submitted by you on behalf of your student, Mr Yehualashet Demeke Lakew – Student number: 50785192 for the study

Determinants and impediments in the internationalization process of small and medium-sized manufacturing enterprises in Ethiopia

has received ethical approval.

Decision: Application approved

The application for ethics clearance for the above mentioned research was reviewed by the Department of Business management Research Ethics Committee on 23 April 2014 in compliance with the Unisa Policy on Research Ethics. Ethical clearance has been granted.

This certificate is valid for the duration of your student's research project from the date of issue. Please be advised that the committee needs to be informed should any part of the research methodology as outlined in the ethics application change in any way or in case of adverse events attributable to participation in the study.

Disclaimer:

The student's application complies with ethical requirements. The output of the research is however, the student's own work and does not necessarily reflect the opinion of the University.

The Research Ethics Review Committee wishes you and your student all the best with this research undertaking.

Kind regards,

Prof Watson Ladzani
Chairperson of the sub-unit RERC
Department of Business Management
Email: wladzani@unisa.ac.za

Prof Valiant Clapper
Executive Dean
College of Economic and
Management Sciences



BEKA International Consultancy PLC

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☎ +251 927 99 68 68 ✉ +251 221 122 466 P.O. Box: 1063 Email: beka4c@yahoo.com

20 May 2015
University of South Africa
P.O.Box 392
UNISA
0003
South Africa

Dear Prof G E CHILOANE-TSOKA,

Re: Confirmation of editing on thesis by YEHUALASHET LAKEW entitled "DETERMINANTS AND IMPEDIMENTS IN THE INTERNATIONALISATION PROCESS OF SMALL AND MEDIUM-SIZED MANUFACTURING ENTERPRISES IN ETHIOPIA".

I am Mr. Kalbesa Beyene, Language editor and Translator at BEKA International Consultancy PLC. A legally established consulting firm in Ethiopia. I would like to confirm that I edited the thesis by Yehualashet Demeke on DETERMINANTS AND IMPEDIMENTS IN THE INTERNATIONALISATION PROCESS OF SMALL AND MEDIUM-SIZED MANUFACTURING ENTERPRISES IN ETHIOPIA.

Mr. Yehualashet worked on the area of SMEs which has gained due attention in the current scenario of Ethiopia. Small and medium sized enterprises are a backbone for developing economies and a means to tackle poverty in fast growing countries like Ethiopia. However, the sector is facing challenges posed as a result of globalization of business activities. This comprehensive study by the researcher pointed out both internal and external factors affecting internationalisation of Ethiopian SMEs and the author forwarded policy, practical and research recommendations. It is my sincere hope that SMEs managers and policy makers will heed an action on the recommendations put forward.

You are more than welcome to consult me should need arises.

Yours Sincerely,

Kalbesa Beyene (MA in General and Theoretical Linguistics)

Editor