

# “Internationalization drivers of small and medium-sized manufacturing enterprises in Ethiopia: the case of leather and leather products industry”

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## Internationalization drivers of small and medium-sized manufacturing enterprises in Ethiopia: the case of leather and leather products industry

### Abstract

Internationalization has been a topic of common interest among scholars in the field of international business since the emergence of globalization. But not much research work has been done to comprehend the process of firm internationalization in Ethiopia. This study aims to unveil the most important factors driving internationalization process of Ethiopian SMEs operating in leather and leather products industry located in Addis Ababa. 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. Thus, their internationalization will have a significant impact on industrialization and economic development of Ethiopia. The internationalization phenomenon is examined in a more comprehensive manner than in many previous studies, through integrated theoretical lenses. Firm export propensity is the dependent variable and export driving factors are used as explanatory variables. Mixed research design approach through survey and semi-structured interviews and secondary sources are used to obtain the required data. A stratified random sampling technique is used to recruit the required respondents. A questionnaire is administered to 90 (36 exporting and 54 non-exporting) SMEs in leather and leather products industry in Addis Ababa. Similarly, interviews are conducted with nine SMEs managers and owners. Analytical techniques of factor analysis and binary logistic regression analysis are used to make sense of the collected data and test hypotheses. The statistical result indicates that managerial factors, internal marketing factors and foreign government related factors, firm ownership and size are the most significant drivers of SMEs internationalization from Ethiopia. The study concludes that internal and external factors influence internationalization of Ethiopian firms in manufacturing industry. From the results and conclusions, the study recommends policy, research and managerial implications the implementation of which will make Ethiopian SMEs more competitive in international arena.

**Keywords:** internationalization, drivers of internationalization, behavioral theory of internationalization, SMEs, exporting, Ethiopia.

**JEL Classification:** L26, L67.

### Introduction

Internationalization 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 internationalization process of small and medium sized enterprises (SMEs) in the context of developing economies in the 21<sup>st</sup> century. A glance at the contextual justification of this current study reveals that since few studies had examined the internationalization 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 contribute to SME internationalization development (Alexander & Warwick, 2007; Autio et al., 2007; Camara & Simoes, 2008; Debele, 2002). Researchers such as Crick (2007), Senik (2010), Debele (2002) and Jaeger (2008) recognize that, the adopted western-based management practices within African context differ because of different business

and culture conditions (Debele, 2002). 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 understand internationalization process of firms in manufacturing industries.

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), Johanson and Vahlne (2009), Kocker and Buhl (2008), Stanton et al. (2011), these studies have been primarily conducted in the context of industrialized economies.

This study aimed at investigating SMEs internationalization in Ethiopian manufacturing industry through the lenses of driving factors by focusing on one manufacturing industry sub-sector. Earlier researchers (Abdurehman, 2012; Girmay,

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2006; 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 internationalization process of SMEs was virtually ignored in earlier researches dealing with internationalization of firms from developing economies. This study also included aspects of international entrepreneurship in the process of SMEs internationalization from developing countries like Ethiopia.

Most of the recent empirical studies on SMEs internationalization emphasize the traditional model (the Uppsala process model) of firm internationalization besides its criticism (Rundh, 2007; Young, 2007; Ghauri et al., 2009; Kuivalainen et al., 2012; Crick, 2007; Fletcher, Richard, 2011; Nummela et al., 2010; Stehr, Christopher, 2010; Lopez, Luis et al., 2009; Johanson and Vahlne, 2009). Other researchers emphasize the importance of the Network approach to SMEs internationalization instead of the process oriented Uppsala model. The Network approaches of SMEs internationalization dictate that social networks as well as work relationships can facilitate internationalization operation whereas, Uppsala model assumes incremental penetration into international markets.

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. The recommendations drawn from this study will create awareness about the concept, principles, and benefits of SMEs internationalization in the Ethiopian manufacturing industry and specifically to leather and leather products industry. Managers of small and medium sized manufacturing firms and owners might also use the findings of this study to evaluate their internationalization status, determine their internationalization strategy, and create networks with suppliers and other competitors in the industry.

The study further attempted to clarify this problem through conceptualization of two investigative questions:

1. *What driving forces motivate the internationalization process of SMEs in manufacturing industries in Ethiopia?*
2. *What patterns and internationalization strategy do Ethiopian manufacturing SMEs follow?*

The following are the objectives of this study:

To explore determinant factors that motivate business internationalization among Ethiopian SMEs in the manufacturing industry.

To identify the pattern and mode of entry followed by Ethiopian SMEs in the manufacturing industry to expand their business in foreign markets.

Accordingly the research intends to test the hypotheses that:

*Ho<sub>1</sub>: 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 internationalization of SMEs in Ethiopia.*

*Ho<sub>2</sub>: 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 internationalization of SMEs in Ethiopia.*

*Ho<sub>3</sub>: There is no significant association between firm size as measured by number of employees and the likelihood of its internationalization.*

*Ho<sub>4</sub>: There is no significant association between firm age and the likelihood of its internationalization.*

*Ho<sub>5</sub>: There is no significant association between foreign ownership of firm and the likelihood of its internationalization.*

*Ho<sub>6</sub>: There is no significant association between international experience of managers and the likelihood of firm internationalization.*

The rest of this article is organized as follows: Section one presents the literature review and factors motivating export trade in Ethiopia. Empirical methodology, analysis and hypothesis testing are performed in Section two, Section three deals with results and discussions while Final Section presents recommendations and research implications.

## 1. Literature review

Internationalization 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 internationalize through exporting due to the

minimal business risks and the low resource commitment (ibid). Small enterprises varied in their involvement in internationalization 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 et al., 2011). Internationalization is found to be a significant aspect of the maximization 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 internationalization: – the stage approach, the network approach and the born global approach – are frequently discussed in the literature (Hynes, 2010). The stage approaches assumes that firms internationalize through incremental stages. The network approach proposes the importance of internal and external networks in the process of internationalization. Born global firms start internationalization at the early stage of their establishment (ibid).

Numerous theories exist that serve to capture the internationalization 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, McDougall & Baume, 2009). The first two theories, the Uppsala model and innovation-related model are generally described as the incremental or traditional models of internationalization.

The trend toward increased internationalization of world markets emphasizes the importance of understanding how firms behave and how they perform in international markets. An important research area has been firm internationalization research and in particular a focus on internal and external determinants of internationalizing firms. Most internationalization studies focus on the outward processes associated with exporting, licensing, franchising and foreign direct investment, with exporting being the main mode of internationalization for SMEs (Westhead, 2008; Eusebio et al., 2007). 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 internationalization in detail that is internationalization through exporting by targeting firms in one industry.

### **1.1. Internationalization in SMEs perspective.**

Small and medium sized enterprises (SMEs) represent over 90% of private businesses, contribute more than 50% of GDP in most African nations (African Economic Outlook (AEO), 2011). It is argued that the ability of SMEs to internationalize

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 drivers of SMEs internationalization through the lenses of an integrated theoretical underpinnings. This predicament has inspired the need for this study on internal and external drivers of SMEs internationalization in Ethiopia.

Moreover, the rise of e-commerce has accelerated trends in the international involvement of SMEs. There is evidence that it has reduced risks associated with internationalization 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 internationalization, by allowing SMEs to enter foreign markets in non-standard ways (Jaw and Chen, 2009). Internationalization 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 internationalization strategy of SMEs.

### **1.2. Factors motivating export trade in Ethiopia.**

Factors that cause a firm to internationalize 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).

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 internationalization of 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’ involvement in international trade the Agency engages in:

- ◆ Professional support (hands-on technical assistance) and training to exporters, in line with the newly adopted export of 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, analyze 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).

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

- ◆ member of COMESA (common market for Eastern 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); and
- ◆ 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, Middle East 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).

## 2. Data and methodology

Mixed research approach of quantitative survey, semi-structured interview and review of extant literatures were used to obtain the required data. The study was a firm level analysis of internationalization drivers of SMEs in the leather and leather products manufacturing industry in Addis Ababa Ethiopia. The leather and leather products industry was selected for its being one of the priority sectors with more export oriented firms. Stratified random sampling was used to select 90 SMEs of which 36 of them were exporting and the remaining 54 are domestic oriented SMEs. Instrumentation of questionnaire and interview protocol was used to gather primary data. Both instruments were 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 drive SME internationalization. Modifications were made based on the pre-test results. Ethical standards of informed consent and voluntary participation were secured in advance of data gathering and respondents were allowed to check the draft analysis.

The collected data were cleaned, coded and analyzed through parametric and non-parametric statistical methods of exploratory factor analysis, binary logistic regression, Chi-square test of independence and Spearman rank order correlation coefficients. 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 internationalization decisions as well as to find out the most influential factors.

The logit model was formed as follows:

$$\text{Logit}(\rho) = \text{Log}[\rho/(1 - \rho)] = \beta_0 + \beta_1 F_1 + \beta_2 F_2 + \beta_3 F_3 + \dots + \beta_n F_n, \text{ of which:}$$

$\rho_i$  = the probability of SME being an exporter;

$\beta_0$  = log odds of firms which is considered as non-exporter (when all  $F_i = 0$ ).  $\beta_i$  = log odds of firms which is considered as exporter (when  $F_i = 1$ ).

## 3. Results and discussions

As shown in Table 1, 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%) of the questionnaires were used in this analysis.

Table 1. Response rate of survey 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: Field survey (2015).

**3.1. Results of hypotheses testing.** An exploratory factor analysis was used to reduce the items so as to get manageable dimensions of export driver factors. The objective was to use the result of factor analysis in logistic regression analysis. 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.

The 21 internal export drivers were measured using the constructs established by Lindou (2004 and 2007). To conduct factor analysis, it was initially determined by Kaiser-Mayer-Olkin (KMO) measure and Bartlett’s test that the number of data is suitable for factor analysis (Hair et al., 2010). The Kaiser-Meyer-Olkin (KMO) measure of sample adequacy indicates that the 21-items sample was adequate for factor analysis (KMO measure = 0.855). Table 2 shows results of statistical analysis with regard to internal export drivers.

Table 2. Rotated component matrix for internal internationalization stimuli

Internal stimuli variables	Dimension				
	1	2	3	4	5
Management of 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 unutilized 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
Extraction method: principal component analysis. rotation method: varimax with Kaiser normalization. a. Rotation converged in 7 iterations.					
Kaiser-Meyer-Olkin measure of sampling adequacy.				0.855	
Bartlett’s test of sphericity	Approx. Chi-square				2394.568
	df				210
	Sig.				.000

Source: Analysis of survey data (SPSS factor analysis result-2015).

Factor analysis was used to reduce the 36 variables to a smaller number of factors that represent the essential characteristics of the set of external drivers of SMEs internationalization. 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 3.

Table 3. Rotated component matrix for external internationalization 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 organization				.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	12.285	5.821	4.372	2.892	1.888	1.606
Percentage of variance explained	34.125	16.170	12.146	8.034	5.244	4.462
Cumulative percentage	34.125	50.295	62.441	70.475	75.71	80.18
Extraction method: principal component analysis. rotation method: varimax with Kaiser normalization.a. Rotation converged in 23 iterations.						
Kaiser-Meyer-Olkin measure of sampling adequacy.					.795	
Bartlett's test of sphericity	Approx. Chi-square				3394.568	
	df				310	
	Sig.				.000	

Source: Analysis of survey data (SPSS factor analysis result-2015).

To identify the most significant driving factors that drive SMEs internationalization from Ethiopia, a logistic regression analysis 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% (Nagelkerke  $R^2$ ) of the variance in SMEs propensity to export and correctly classified 84.4% of cases. Table 4 presents results of logistic regression analysis of export driving factors.

Table 4 presents the statistical significance of individual regression coefficients ( $\beta$ 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 were examined to test hypotheses 1 and 2 as follows:

*H<sub>01</sub>: 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 internationalization of SMEs in Ethiopia.*

Table 4. Result of logistic regression analysis - export drivers

Explanatory variables	β	S.E.β	Wald's $\chi^2$ (df=1)	p	Exp(β)	95% C.I. for EXP(β)		
						Lower	Upper	
Step 1a	Managerial	7.409	2.609	23.066	.005	1650.64	9.933	235.173
	Research and development	-3.014	1.273	5.605	.018	.049	.004	.595
	Internal marketing	3.136	1.048	18.945	.003	23.007	2.947	179.60
	Production	-2.408	1.192	4.081	.043	.090	.009	.931
	Foreign market	-.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
	Domestic government	1.469	1.273	4.746	.029	16.64	1.159	16.277
	Foreign government	7.409	1.048	13.066	.005	.049	9.933	275.17
	Domestic market	-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.

*Ho<sub>2</sub>: 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 internationalization 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 4 show 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.

*Ho<sub>3</sub>: There is no significant association between firm size as measured by number of employees and the likelihood of its internationalization.*

Hypothesis 3 hypothesized non-existence of relationship between firm size and firm internationalization. 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.

*Ho<sub>4</sub>: There is no significant association between firm age and the likelihood of its internationalization.*

In order to test the association between firm age and internationalization chi-square test of independence was conducted and the result of Pearson chi-square shows that the association between firm age and internationalization is significant  $\chi^2 (df = 2, n = 90) = 9.011, p = .001$  and hypothesis 4 is not supported.

*Ho<sub>5</sub>: There is no significant association between foreign ownership of firm and the likelihood of its internationalization.*

Hypothesis five hypothesized that foreign ownership has no relationship with the likelihood of SMEs export involvement. 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 internationalization. As a result weak association between firm ownership and export involvement was found  $\chi^2$  (Fisher's exact test  $p = .056$ ) and is in line with hypothesis five.

*Ho<sub>6</sub>: There is no significant association between international experience of managers and the likelihood of firm internationalization.*

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 chi-square test of independence result revealed existence of significant association between prior experience of SMEs managers/owners and initiation of export activities,  $\chi^2(1, n = 90) = 18.731, p < .001$ . As a result hypothesis 6 was rejected with 95% confidence level. Table 5 summarizes results of hypotheses testing.



Table 5. Summary of hypotheses testing

No	Empirically tested Null hypotheses	Outcome
$H_{o1}$	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 internationalization of SMEs in Ethiopia.	Not supported
$H_{o2}$	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 internationalization of SMEs in Ethiopia.	Not supported
$H_{o3}$	There is no significant association between firm size as measured by number of employees and the likelihood of its internationalization.	Not supported
$H_{o4}$	There is no significant association between firm age and the likelihood of its internationalization.	Not supported
$H_{o5}$	There is no significant association between foreign ownership of firm and the likelihood of its internationalization.	Supported
$H_{o6}$	There is no significant association between international experience of managers and the likelihood of firm internationalization.	Not supported

Source: Authors' own compilation from quantitative data analyses (2015)

#### 4. Conclusions and recommendations

The result revealed that, 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). In this study the result of exploratory factor analysis revealed 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 driving factors for internationalization of SMEs. This finding revealed that Ethiopian SMEs join international market due to external pull factors instead of internal push factors. Worth mentioning at this juncture is those external market opportunities such as AGOA (African growth opportunity act) and other preferential market access schemes open to developing countries firms including Ethiopia.

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* are 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 research recommended that:

- ◆ 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 items needs improvement and productivity needs to be maximized. Ensuring on quality standards and producing in the way the international market requires, brings about a better position 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.

#### Research implications, limitations and direction for further research

The following practical and policy implications are forwarded from the results and conclusions of this research:

- ◆ 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 internationalization 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.
- ◆ 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 generalization across cultures is considered and the findings cannot be generalized to fit all developing countries.
- ◆ 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 internationalization (outward internationalization through export).

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 internationalization. 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.

Although this research has achieved its overall aim of acquiring a deeper understanding of internationalization process of Ethiopian SMEs and related objectives of drivers, one also has to acknowledge limitations in this empirical study:

In conclusion, this current research can further be improved by conducting a longitudinal study in order to understand the dynamics of SMEs internationalization drivers. Moreover, future researchers should consider comparative study which could benefit from cross-country comparisons in this respect and worth investigating to explore patterns of similarity and differences between the internationalization 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 internationalization development for other organizational processes in Ethiopian SMEs.

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