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**INTERNATIONALIZATION OF ETHIOPIAN
APPAREL SMEs**

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TABLE OF CONTENTS

LIST OF TABLES LIST OF FIGURES ABSTRACT

| | |
|--|-----------|
| 1. INTRODUCTION | 8 |
| 1.1. Study background | 8 |
| 1.2. Research problem and research gap | 9 |
| 1.3. Research question and objectives | 10 |
| 1.4. Scope and relevance of the study | 13 |
| 1.5. Structure of the study | 14 |
| | |
| 2. INTERNATIONALIZATION OF THE FIRM | 17 |
| 2.1. Internationalization theories | 20 |
| 2.1.1. FDI theory | 20 |
| 2.1.2. Incremental models | 22 |
| 2.1.3. Network theory | 28 |
| 2.1.4. Contingency theory | 32 |
| 2.1.5. Entrepreneurship theory | 33 |
| 2.2. Inward and outward internationalization | 34 |
| 2.2.1. Inward internationalization process | 37 |
| 2.2.2. Outward internationalization process | 38 |
| 2.3. Internationalization of SMEs | 46 |
| 2.3.1. Towards a holistic approach to internationalization of SMEs | 47 |
| 2.3.2. Internationalization of firms from developing countries | 48 |
| 2.3.3. Environmental and industry analysis | 54 |
| 2.3.4. Apparel industry in Ethiopia | 56 |
| 2.4. Synthesis | 58 |

| | |
|---|-----|
| 3. RESEARCH METHODOLOGY | 61 |
| 3.1. Research design | 61 |
| 3.2. Data collection | 62 |
| 3.3. Target survey population | 64 |
| 3.4. Survey validity and reliability | 65 |
| | |
| 4. EMPRICAL ANALYSIS AND FINDINGS | 68 |
| 4.1. Descriptive statistics on firms and the target population | 68 |
| 4.2. Different forms of internationalization | 71 |
| 4.2.1. Inward and outward internationalization | 71 |
| 4.2.2. Other forms of internationalization | 76 |
| 4.2.3. Connection between the first import and first export countries | 76 |
| 4.2.4. Proposition testing | 78 |
| 4.3. Internationalization path of SMEs | 79 |
| 4.3.1. Stage approach | 79 |
| 4.3.2. Internationalization and the network approach | 81 |
| 4.3.3. Proposition testing | 88 |
| 4.4. The role of management in internationalization | 89 |
| 4.4.1. Management international orientation | 89 |
| 4.4.2. Management characteristics | 90 |
| 4.4.3. Proposition testing | 93 |
| 4.5. Motivation to internationalize | 94 |
| 4.5.1. Reactive export motivations | 94 |
| 4.5.2. Proactive export motivations | 94 |
| 4.6. Environmental and other factors impacting the international process | 96 |
| 4.7. Evaluation of propositions | 101 |

| | |
|--|-----|
| 5. CONCLUSIONS, MANAGERIAL IMPLICATIONS, POLICY IMPLICAITONS, AND FURTHER STUDIES | 104 |
| 5.1. Conclusions | 104 |
| 5.1.1. Different forms of internationalization | 104 |
| 5.1.2. Holistic approach to internationalization of SMEs in developing countries | 106 |
| 5.1.3. Reactive motivation to internationalize SMEs operations | 109 |
| 5.2. Managerial implications | 110 |
| 5.3. Policy implications | 111 |
| 5.4. Further research | 113 |
| | |
| REFERENCES | 114 |
| | |
| APPENDICES | |
| APPENDIX 1. | 126 |
| APPENDIX 2 | 127 |

LIST OF TABLES

| | | |
|------------------|---|----|
| Table 1. | Motivation for firm's internationalization. | 45 |
| Table 2. | Central researches on internationalization of firms in developing countries. | 50 |
| Table 3. | Propositions. | 60 |
| Table 4. | Number of sent, received questionnaires and response rates. | 65 |
| Table 5. | Number of employees within 5 years of establishment and in year 2006. | 69 |
| Table 6. | Annual revenue in year 2006. | 70 |
| Table 7. | Operation mode in international activities in the first important foreign market. | 72 |
| Table 8. | Number of import countries (beginning 5 years). | 72 |
| Table 9. | Number of export countries (beginning 5 years). | 73 |
| Table 10. | The year company's, import and the export began and the first import and export countries. | 74 |
| Table 11. | First import country. | 75 |
| Table 12. | First export country (beginning 5 years from establishment). | 75 |
| Table 13. | Export country now. | 75 |
| Table 14. | Number of buyers in the domestic market, foreign market and most the important country. | 78 |
| Table 15. | Relationship and first business inquiry. | 82 |
| Table 16. | Relations to export channels/middlemen. | 82 |
| Table 17. | Building long-term relationships. | 83 |
| Table 18. | Foreign supplier provided contacts. | 83 |
| Table 19. | Freight provider provided us with contacts. | 83 |
| Table 20. | Import agent and first export inquiry. | 84 |
| Table 21. | Domestic agent and first export inquiry. | 85 |
| Table 22. | Foreign agent and contacts. | 86 |
| Table 23. | Relationship and internationalization. | 87 |
| Table 24. | Management's international experience. | 89 |
| Table 25. | Management characteristics. | 91 |
| Table 26. | Reactive export motivations. | 95 |

| | |
|---|-----|
| Table 27. Proactive export motivations. | 96 |
| Table 28. Environmental factors in international operations. | 98 |
| Table 29. Firm characteristics. | 98 |
| Table 30. Organization structure and business. | 99 |
| Table 31. Domestic market situation. | 99 |
| Table 32. Financial capability of company. | 100 |
| Table 33. Working capital availability. | 100 |
| Table 34. Size of the company. | 100 |
| Table 35. Summary of propositions. | 103 |

LIST OF FIGURES

| | | |
|-------------------|--|-----|
| Figure 1. | Scope of the study. | 14 |
| Figure 2. | Structure of the study. | 16 |
| Figure 3. | The basic mechanism of internationalization: state and change aspects. | 24 |
| Figure 4. | Overview of internationalization models. | 27 |
| Figure 5. | Internationalization and the network model. | 30 |
| Figure 6. | Division of foreign operations | 35 |
| Figure 7. | Classification of outward operations. | 39 |
| Figure 8. | Combined functional and investment classification. | 40 |
| Figure 9. | Conceptual framework | 59 |
| Figure 10. | Primary field of business of apparel SMEs. | 70 |
| Figure 11. | Internationalization and the network model. | 86 |
| Figure 12. | Management's interest in internationalization. | 92 |
| Figure 13. | The need for management's international experience. | 93 |
| Figure 14. | Home market not the only market. | 93 |
| Figure 15. | Modified conceptual framework. | 110 |

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ABSTRACT:

The main aim of this research was to identify the internationalization patterns of SMEs in developing countries. The study aimed to identify the influence of inward international activities on outward international activities. From the internationalization models and theories, the stage models of internationalization, the network approach and the contingency view were examined. In addition, the role of a manager/owner in the internationalization process of SMEs and the motivations for SMEs to internationalize their operations was analyzed.

The theoretical part of the research was based on earlier research and literature. Based on the extant research, Propositions related to internationalization process of SMEs were drawn and a conceptual model, which includes international activities comprising inward and outward internationalization, external factors, internal factors and business network, was developed. In the empirical part of the research, the Propositions were tested through quantitative research.

The empirical part of the research analyzed the contribution and link of the inward internationalization to outward internationalization of apparel SMEs in Ethiopia. Over 28 questionnaires were delivered to apparel SMEs in Ethiopia. The findings of the study indicate that the majority of SMEs undertake both inward and outward internationalization at the same time. In addition, for the majority of the SMEs, the year they started their business and the year they began either inward or outward international activities was the same. Building long term relationship was perceived to be important. The international orientation of the manager/owner was found to influence the internationalization of SMEs in Ethiopia. Export subsidies, internationalization of customers, and internationalization of competitors were found to impact the decision of SMEs to start operating internationally.

According to the research results, the contingency view in conjunction with the network approach and some aspect of the stage models explains the internationalization process of apparel SMEs in Ethiopia. The role of a manager/owner was found to be important in the internationalization process of SMEs. Reactive motivations were found to trigger firm's decision to start operating internationally.

KEYWORDS: Internationalization, SMEs, Developing Countries, Holistic Approach

1. INTRODUCTION

1.1. Study background

International trade and business links have increased in complexity. The strategic imperative that firms of all sizes face are two main pressures: increasing trade liberalization and international competition. The increasing internationalization of agriculture, manufacturing and services means that firms of all sizes face competition from companies' world-wide. Consequently, in order to survive in a market characterized by intense competition, firms face the choice of becoming one of the few large competitors or being a small-scale competitor focusing on one or a small number of domestic market niches. Besides international competition, other conditions such as market, cost, and government are driving firms around the world to globalize their operations. (Elis & Williams 1995: 45, Yip 1989: 29). Developing countries are increasingly utilizing incentive systems (liberalization) and are assisting domestic companies to operate on a global platform (globalization). Hence, developing countries' markets are becoming increasingly integrated into the global economy. (Kaplinsky & Readman 2001: 1; Rynard & Forstater 2002: 31.)

In the past, Small and Medium-sized Enterprises (SMEs) remained in local or regional markets while large companies competed mostly in international markets. However, the global competitive environment has gradually changed as globalization has removed barriers to market entry and has opened markets for worldwide competition with the emergence of the global market. (Levitt 1983: 92). Hence, small firms operating in domestic markets have to become competitive internationally in order to secure their long term survival and growth. While larger firms or multinational corporations (MNCs) have acquired international market experience, the majority of small businesses have only recently started to adopt an international perspective in their strategies. (Tesar & Moini 1998 cited in Kalantaridis 2004: 246.)

The role of SMEs in developing countries as a vehicle for economic development is increasingly becoming important. (Rynard & Forestater 2002: 2). In terms of the internationalization process, Johanson and Wiedersheim-Paul (1975: 25) view the process as an account of the interaction between attitudes and actual behavior of firms. Attitudes are the basis for decision to undertake international ventures, and the experiences from international activities influence these attitudes.

Coviello and McAuley (1999) suggest that there is a growing interest in research to understand the processes and patterns that explain how smaller firms increase their involvement in the international market over time. In terms of the findings of their theoretical review, Coviello and McAuley (1999: 231-240) point out that there is a trend in SME literature towards combining the three theoretical frameworks (FDI theory, stages models, and network perspective). Hence, this study aims to answer the call of Coviello and McAuley (1999: 231-240) to have a *holistic approach* to the study of internationalization of SMEs.

Consequently, the aim of the study is to investigate the internationalization of Ethiopian Apparel SMEs. Specifically, the internationalization process of SMEs will be identified; and the impact of internal and external environmental factors on the internationalization process of SMEs will be investigated. In addition, the impact of other related factors such as the role of owners/managers and the importance of network perspective in the internationalization of SMEs will be analyzed. Finally, the motivation for internationalization of SMEs will be investigated.

1.2. Research problem and research gap

According to Melin (1997: 88), previous research fails to relate the internationalization process of the firm to its surrounding context such as the institutional and social context, and the sectoral context. Besides the need to consider the firms' context, there is little research on the inward and outward internationalization of firms. (Korhonen 1995: 2, 5.) As companies involved in internationalizing their businesses in developing countries

are predominately SMEs, it is important to focus on these types of companies and test existing internationalization theories in developed countries. Hence, in order to explain the internationalization process of SMEs, different factors that could influence the internationalization process of SMEs from developing countries should be considered. As Ethiopian Apparel SMEs are at an early phase of the internationalization process, the stage theory and its further development - network theory, contingency theory in conjunction with the role of a manager/an owner, in the internationalization process, will be tested and explained.

The main research problem will be stated as follows.

What factors explain the internationalization of SMEs in developing countries?

1.3. Research questions and objectives

The main research objective of this study is to analyze the internationalization process of SMEs. Thus, the main research question will be stated as follows:

What internationalization patterns do SMEs in developing countries follow?

- Do SMEs operating in developing countries internationalize their inward and outward activities as those in developed countries?

Having stated the research question, the main research question will be subdivided as follows:

1. What influences do the inward international activities have on the outward internationalization activities of the firm? If there are any influences, what is the nature of these influences?

This research question aims to find out whether the inward international activities of the firm have any influence on the outward internationalization of the firm. Furthermore, if the inward international activities are found to influence the outward internationalization of the firm, the study aims to explore how the inward activities are connected with the outward internationalization. In order to investigate how the inward activities could be connected to outward activities, market pattern, product pattern, and operation mode pattern of the firm will be investigated.

2. What explains the internationalization process of SMEs in developing countries?

- Do the stage models with the network approach explain the internationalization process of SMEs in developing countries?

In regards to SMEs in developing countries, the aim of the study would be to test whether existing theories mainly the stage theories in conjunction with the network approach help explain the internationalization process of these firms. Hence, the choice of target markets, operation modes, and the level of commitment in the beginning phase of the firm's establishment and the current status will be investigated. In addition, the role of network for internationalization will be assessed.

- Does contingency view together with other models explain the internationalization process of SMEs in developing countries?

In regards to SMEs in developing countries, the aim of the study would be to test besides the stage models, the contingency view that environmental factors including potential networks of decision-makers and focal firms explain the internationalization process of SMEs in developing countries. The underlying assumption of this study is that one model might be/might not be enough for explaining the internationalization process of SMEs in developing countries.

3. What orientation influences the internationalization process of SMEs?

- Does a manager's/owner's international orientation has a positive impact on the internationalization of SMEs?

Taking in to account the need to have a holistic approach in the study of internationalization of SMEs, the aim of this study is to test whether manager's/owner's international orientation has an influence on the internationalization process of SMEs in developing countries.

4. What prompts SMEs in developing countries to internationalize their operations?

In terms of the motivation of firms to internationalize their operations, it will be important to find out whether they were prompted by proactive or reactive motivations.

The Empirical Objective will be as follows:

1. To identify the role of import and other inward co-operative modes contribution and link to outward (export and other operation modes) internationalization of Apparel SMEs in Ethiopia.
2. To find out the internationalization path that SMEs have taken. Furthermore, to analyze the business distance between domestic and host country. To analyze the impact of foreign market knowledge on internationalization process of SMEs. To analyze the importance of business network in the internationalization process of SMEs. To identify the environmental factors influencing the internationalization process of SMEs in developing countries. The overall objective would be to find out whether hybrid models (holistic view) of internationalization help explain internationalization of SMEs in developing countries.
3. To find out the role of managers/owners in internationalization process .Specifically to find out whether the international orientation of managers/owners have an influence in the internationalization process of SMEs.
4. To identify what triggers the firms to internationalize their operations.

1.4. Scope and relevance of the study

The research focuses on internationalization of SMEs. This study also includes both the private and public apparel SMEs. The study aims to focus on apparel companies, which are either manufacturing or value adding to the product, but excludes companies that are purely retail SMEs. The reason for the choice of the apparel industry pertains to the level of the economic development of the country of the study. As one of the developing countries from Africa, Ethiopia depends heavily in the trade of commodities. From all the industries, the garment industry was found to exhibit tremendous international activity.

Consequently, in this study, the influence of external and internal environment of the firm, and the influence of business networks (mainly social networks and relationships) on the internationalization process both inward and outward internationalization will be covered. The scope of this study is summarized

Figure 1. In this study, it is assumed that the outward internationalization could influence the inward internationalization, the model incorporates this aspect. However, this study will not focus whether the outward internationalization influences the inward internationalization.

In this study the main focus is on the internationalization process of apparel SMEs in Ethiopia and hence, the operational and competitive aspects of their international activities are excluded.

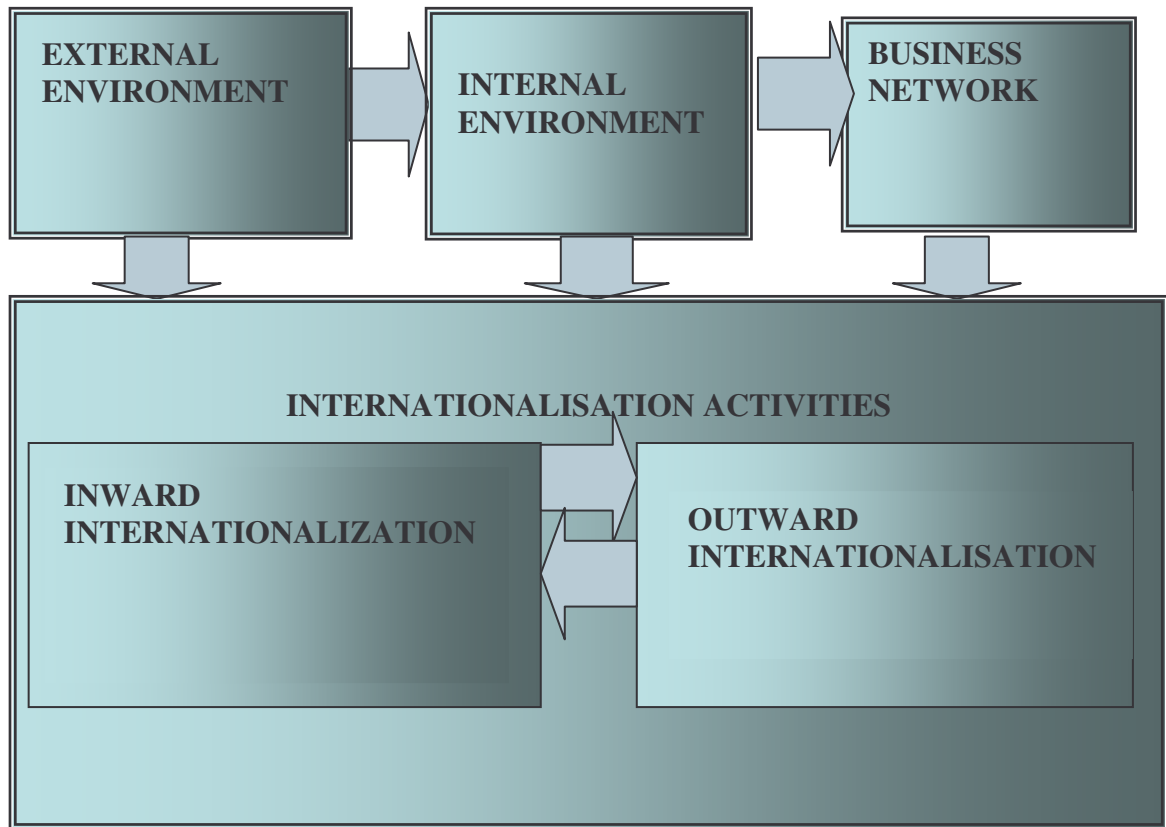


Figure 1. Scope of the study.

1.5. Structure of the study

The present study is divided up into 6 main chapters as indicated in Figure 2. The first chapter of the study is an introduction to the research. The first chapter discusses the general idea of the study, which is related to previous studies, research aim, research problem, research objectives, and the research scope and structure.

Chapter 2 provides the theoretical perspective of the study. In this chapter the main theories, concepts and terms are discussed. First, the research presents the stage theory including the Uppsala model, innovation theories and inward and outward internationalization. It also presents the entrepreneurship theory, the network approach and the contingency view. In addition, it covers the need to have a hybrid model when

studying the internationalization of SMEs. Moreover, it also explores the reactive and proactive motivation of internationalization. Furthermore, it presents internationalization of SMEs in developing countries. Finally, the chapter ends with a synthesis of internationalization of SMEs.

The methodological approach and research strategy used in this study can be found in chapter 3, which presents the survey research. The empirical finding is covered in chapter 4. In chapter 5, conclusions, managerial implications, policy implications with possible areas that can be considered for further research are presented. Finally, references and appendices are also provided.

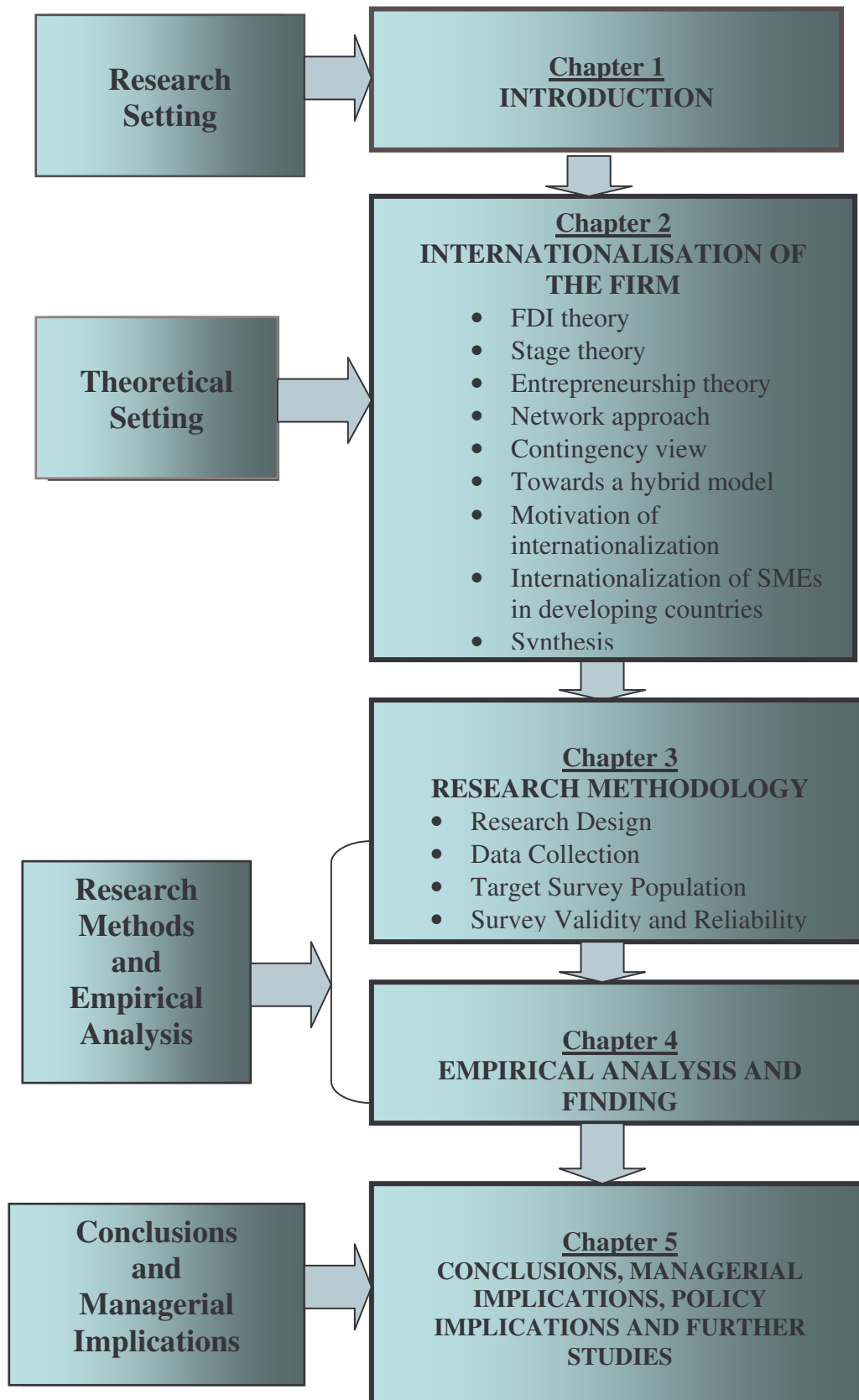


Figure 2. Structure of the study.

2. INTERNATIONALIZATION OF THE FIRM

There have been several studies in the internationalization process of firms. As a result, there are different theories and views on the factors influencing internationalization, based on economic literature, theories on multinational companies, process of internationalization theories, and the new international entrepreneurship research (Svante 2004: 851-875). The dominant theory has been the eclectic theory, which combines economic theories of monopolistic competition, location, and transaction costs. (Johanson & Vahlne 1990 :11). However, there are a number of studies which are based on behavioral approach (Johanson & Vahlne 1977, Bilkey & Tesar 1977, Johanson & Wiedersheim-Paul 1975, Johanson & Wiedersheim 1975, Cavusgil 1980, Reid 1981, Czinkota 1982, Welch & Luostarinen 1988.)

Internationalization is viewed as stage process, whereby firms increase their involvement within and across national markets; and the proponents of this view have developed the Uppsala model. (Johansson & Weidersheim-Paul 1975 :27; Johanson & Vahlne 1977: 43.)

According to Clark, Pugh, and Mallory (1997: 165), the Uppsala model depicts the process of internationalization as a consequence of the acquisition of experiential knowledge such as market specific knowledge. Furthermore, Welch and Luostarinen (1988: 89) view internationalization as an evolutionary process not only in terms of depth of operational mode, but also in terms of diversity of modes used, as well as in product offerings and range of markets penetrated.

Internationalization is defined as the process of increasing involvement in international operations. (Welch & Luostarinen 1988: 84.) This definition of internationalization takes into account not only the outward but also the inward process of international trade. Even though the definition seems to indicate that the process is going forward, the authors caution that once a firm embarks on the process there is no guarantee about its continuance. Furthermore, Welch and Luostarinen (1998) also state that as the level of

international involvement by companies' increases, they have a tendency to change the method by which they serve foreign markets.

Luostarinen's research cited in Welch and Luostarinen (1988:89-90) categorizes product offering into four categories: goods, services, systems and know-how. Based on his research, in terms of the offering to foreign markets, it was found out that firms began by using the simplest form such as selling goods and progressed into selling complex forms such as services, systems and know-how to foreign markets.

In terms of the motivation of firms to internationalize their operations, Welch and Luostarinen (1988: 92-95) argue that the ability to undertake any form of international operations is clearly limited by the means that is accessible to the firm to carry it out. For smaller firms, due to their limitations in many areas, resource availability is the main reason why less demanding direction of international development are undertaken in the short run, and major commitments occur later in the long run. Resource availability (physical and financial capacity of the firm) is the critical factor in the ability of the firm to conduct its international activities. Another critical factor in the ability to carry out chosen international activities is the process of appropriate knowledge. Appropriate knowledge includes knowledge about foreign markets, techniques of foreign operation, ways of doing business and about key people in business organizations.

In terms of other critical factors in the ability of the firm to conduct international activities, personal contact and social interaction also play an important role in the development of international markets. When firms plan to go abroad, it is found out that they prefer to reduce their uncertainty and risks. Finally, control and commitment are important factors that firm consider when they internationalize their business operations. This means that firms usually consider how much of control they should have and to what extent they prefer to be committed to the foreign markets. The control and commitment factors can be understood in terms of whether firms choose to have full control and high commitment or they choose to have less control and low commitment. Those firms who choose to have full control and high commitment either

acquire an existing firm or start a venture from scratch, which is known as greenfield operation. On the other hand, those firms who choose to have less control and low commitment export their products by using local intermediary or export their products directly. However, there are also other types of firms whose control and commitment level lies between the two aforementioned extremes. The control factor interacting with knowledge development and risk perception tends to be a growing influence over time, which pushes a firm towards increasing involvement in foreign operations. Finally, commitment will be higher when key management is involved in developing the international strategy. All these factors are considered to be critical for the firm to carry out chosen international activities. (Welch & Luostarinen 1988: 93-95.)

In their work on export development process, which is an integrative review of existing empirical models, Leonidou and Katsikeas (1996: 518) argue that despite considerable research on export behavior, no comprehensive or widely accepted theory has emerged. They define export as the transfer of goods and services across national boundaries and point out that the export phase of the firm's internationalization process constitutes the first steps of the firm, especially for small firms. Small firms will use the export mode as they seek to avoid business risks, have limited resources, need high flexibility of action when they internationalize their operations beginning with exporting their goods and services.

There are a number of reasons why companies have not ventured abroad: lack of market demand, fear of the unknown, unfamiliarity with foreign cultures, cost factors, lack of knowledge on how to break into foreign markets and misinformation in regards to foreign markets. (Zuckerman & Biederman 1998: 2-3.)

In a study dealing with internationalization and foreign market penetration patterns concerning Finnish companies operating in Japan, the finding on the learning process in internationalization, supports both the Uppsala and Luostarinen's internationalization model. However, in some cases, it was found out that the models could not explain the learning process. Hence the conclusion of the study was that the learning process in

internationalization is more complicated than the theories suggest. (Karppinen-Takada 1994: 164.)

According to Bonaccorsi (1991: 605) export marketing literature supports the view that firm size is positively related to export intensity. Empirical evidences challenge this widely held assumption and as a result the findings have been mixed. (Bonaccorsi 1992). His study supports other findings, which claim that firm size has little or no influence on export intensity (export/total sales ratio). In his study on the relationship between firm size and export intensity of the Italian manufacturing industry, Bonaccorsi (1992: 128) argues that the risk perception of small firms is not as strong because firms do not stand alone but rather are related to other firms through different kinds of bonds. Small firms are influenced by other members with whom they are related in their business endeavors. Besides other reasons, their size may not have an adverse effect in their degree of internationalization.

2.1. Internationalization theories

As described earlier in the beginning part of this chapter, there are different theories that attempt to describe the internationalization process of firms. In this study it would be important to identify these theories - factors that are deemed to be important according to each theory or model that explain the internationalization of firms in general. Hence, the study will present the theories together with critics of the theories or models.

2.1.1. FDI theory

The eclectic theory, which combines economic theories of monopolistic competition, location and transaction costs, is considered to be the dominant theory on foreign investment. (Johansson & Vahlne 1990: 11; Melin 1997: 77). The eclectic theory argues

that there are three advantages, namely the *ownership* (O) advantages, the *internalization* (I) advantages, and the *location* (L) advantages, which together determine the level and structure of the firm's value added activities.

These three conditions need to be fulfilled such as the extent to which the enterprise has sustainable *ownership* specific (O) advantage compared to foreign firms in a particular market it already serves or plans to serve. These (O) advantages could be intangible assets such as property rights (production innovations, production management, organizational and marketing systems and others) or common governance advantages (economies of scope and specialization, synergistic economies in production, purchasing, marketing, finance and others). These advantages are known as (O) advantages (condition 1).

Secondly, if condition (1) is satisfied, the extent to which the enterprise considers to add value on its (O) advantages instead of selling or giving the right to use these advantages to foreign firms (licensing), is known as the *internalization* (I) advantages (condition 2). Thirdly, if condition 1 and 2 are satisfied, the extent to which the firm is served by creating, or utilizing its (O) advantages in a foreign location. The distribution of these uneven resources and capabilities is deemed to give *location* (L) advantage on the countries which have them than those which do not have them. (Dunning 1993: 79-81.)

According to Melin (1997: 77-78), the eclectic paradigm is based on economic theory and has transaction cost and factor costs as its main explanatory variables together with the assumption of rational decision-making in international firms, which make foreign direct investments.

Criticism on FDI theory: Buckley and Hashai (2005: 655) explain that the economic school of thought focuses on the advantages gained from *internalizing* the firm's foreign activities during its international expansion. Hence, internalization advantages are viewed to enable the firm to minimize the cost of economic transactions by better exploiting underutilized firm-specific capabilities (managerial skills and technology). Firm specific capabilities are considered to be superior to indigenous competitors.

However, Buckley and Hashai (2005: 656) point out that the economic school has neglected to distinguish between motivations to internationalize different value adding activities of the firm. Secondly, it has focused on static analysis of the choice between alternative foreign market servicing modes, hence neglecting the dynamic dimension of firm internationalization. Finally, in many cases, scholars coming from this school (e.g. Anderson and Gatignon 1986; Buckley and Casson 1976; Dunning 1977, 1988; Hennart, 1993; Hirsch, 1976; Rugman, 1981, 1986 cited in Buckley and Hashai 2005: 655) have directly or indirectly assumed that the internationalizing firm possesses some kind of “home-based” competitive advantage, hence neglecting the potential impact that “host country” knowledge resources may have on the competitiveness of internationalizing firms (Cantwell, 1995; Dunning & Narula, 1995; Kuemmerele, 1997; Zanfei, 2000 cited in Buckley & Hashai 2005: 655.)

2.1.2. Incremental models

The incremental model of internationalization of the firm is described as an incremental, risk-averse and reluctant adjustment to changes in a firm or its environment. (Oviatt & McDougall 1994: 50; Johanson & Vahlne 1977, 1990). Petersen & Pedersen (1997: 131) argue that the Uppsala model remains empirically unchallenged, and the fundamental ideal of incremental internationalization theory seems quite robust. The authors, however, caution that it seems difficult to justify why accumulation of market knowledge should be the sole explanation of incremental entry mode behavior. Peterson & Pedersen (1997: 132) further claim that the prescribed linear relationship between market knowledge and market commitment is questionable. Moreover, the authors contend that even though a number of studies have refuted or questioned the model in regards to its operational level, these studies have not taken enough attention to the inherent limitations of the model.

Although most studies seem to have validated the process theory of internationalization, some studies seem to contradict the generally accepted description of the incremental

(slow and sequential) theory of the internationalization process. Some of the findings indicate that there is a tendency for firms to skip some of the steps and become involved in high commitment modes and psychically distant market. (Sullivan & Bauerschmidt 1999 cited in Vahlne & Nordström 1993: 530). There are suggestions for the inclusion of a number of explanatory variables in the study. The explanatory variables suggested are industry, home, and host country characteristics. (Nordström 1991 cited in Vahlne & Nordström.)

Rao and Naidu (1992: 166) conducted a comprehensive study on internationalization of the firm in an industrial Midwestern state (Wisconsin) using a variety of industry and size categories to find out whether the stages of internationalization empirically are supportable. Their study confirms the Proposition that there are identifiable stages in a firm's internationalization. *Non exporters* appear to be restricted by a number of resource limitations and the lack of management's commitment to export market development. *Export intenders* require additional operational knowledge and assistance in entering into export markets. *Sporadic exporters* seem to vacillate about the balance of effort that should be put into export market compared to domestic market development. Finally, *regular exporters* seem to be well underway toward internationalization, allocating substantial resources to international marketing activity. From the incremental theory, the Uppsala model is a widely known stage internationalization model and the next section will cover briefly this model.

Uppsala model of internationalization (U-Model): The Uppsala model of internationalization draws its theoretical base from earlier works on behavioral theory of the firm such as Aharoni's work on the foreign investment decision process (Aharoni 1966: 3-26) and the theory of the growth of the firm, whereby the growth of the firm is conceived as a process of continual extension of the firm. (Penrose 1966: 7).

Johnson and Widersheim Paul (1975: 306-307) identified four different steps of entering the international market. The first stage is when there is *no regular export activity*. The second stage is when export is conducted through *independent representative* (agent). The third stage is when the firm sets up *sales subsidiary*. The

fourth stage is when the firm has finally started *production/manufacturing* in the foreign market. The Uppsala model compared to innovation models, which will be described later in this section, is considered to be more general because it may be applicable to a wider variety of business sizes and foreign activities. (Oviatt & McDougall 1997: 87.)

The Uppsala model's theoretical scope is *entry mode* and *market choice*. The basic assumption of the model is that the lack of knowledge about foreign markets constrains the development of international operations. In addition, necessary knowledge can be acquired mainly through operations abroad. It also has the *psychic distance* as a central concept, which is 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 physic distance. The basic mechanism of internationalization for Uppsala model is shown in Figure 3.

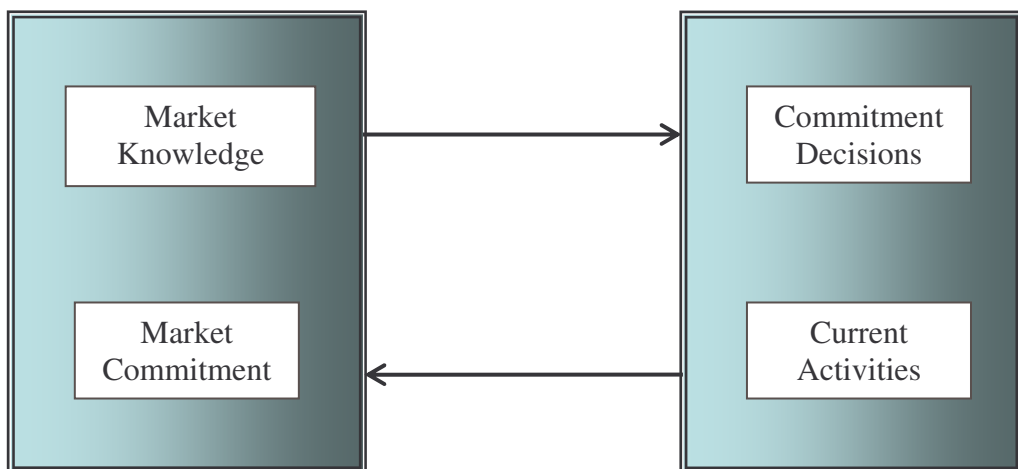


Figure 3. The basic mechanism of internationalization: state and change aspects (Johanson & Vahlne 1977: 26).

Innovation model of internationalization (I Models)

In their study of the export behavior of smaller-sized Wisconsin manufacturing firms, Bilkey & Tesar (1977: 93) identified several stages for the export development processes of firms:

- Stage one: management is not interested in exporting from the outset and hence, would not fill an unsolicited export order.
- Stage two: management would fill an unsolicited export order, but is not proactively exploring the feasibility of exporting (reactive exporter).
- Stage three: management is proactive and explores the feasibility of exporting (this stage can be skipped if unsolicited export orders are received).
- Stage four: the firm exports on an experimental basis to some psychologically close country.
- Stage five: the firm is an experienced exporter to the country it was exporting in experimental basis.
- Stage six: management explores the feasibility of exporting to additional countries, which are psychologically further away.

On the other hand, Cavusgil (1980 cited in Andersen 1993: 213) identified five stages: domestic marketing stage, a pre-export stage, an experimental involvement stage, an active involvement stage, and a committed involvement stage. One of the several studies testing Cavusgil's stage theory has also confirmed that the stage theory holds for existing European SMEs in majority of the cases. But in terms of predicting the time frame for transition from one stage to the next, the study revealed that it was difficult to draw conclusions. (Gankema, Snuif & Zwart 2000: 25.)

Another innovation model of internationalization developed by Czinkota (1982) identified six stages namely completely uninterested, partially interested, exploring firm, experimental firm, experienced small exporter, and experienced large exporter. (Andersen 1993: 213.) Similarly, Reid (1981: 102-104) identified five stage hierarchy

for export expansion of firms consisting of export awareness, export intention, export trail, export evaluation, and export acceptance.

In conclusion, Leonidas and Katsikeas (1996: 517-524) claim that no integrative review of empirical work exists regarding export development models in the extant literature. Even though, the existing review of export models has shown the differences in terms of number, type, and content of the stages, nevertheless one conclusion that can be drawn is that export development process can be divided into three broad phases: *pre-engagement, initial, and advanced*. The *pre-engagement phase* consists three types of firms such as those selling their goods only in the domestic market and not interested in exporting; those involved in domestic market but are seriously considering export activity; and those that used to export in the past but do not export any more.

In the *initial phase*, the firm is involved in intermittent export activity and considers various options. In this particular phase, companies can be classified as having the potential to increase their involvement in foreign market but unable to cope with the demands of exporting, which in turn could lead to marginal export behavior or even withdrawal from selling abroad. In the advanced phase, companies are regular exporters with extensive foreign market experience, and hence frequently consider more committed forms of foreign market involvement. The different innovation related internationalization models are summarized and presented in Figure 5.

Criticism of the stage models: the internationalization process model has a number of shortcomings. It is considered to be too deterministic; its significance is also considered to be limited to the early stages of internationalization. In addition, as the world becomes more homogeneous, the explanatory value of psychic distance tends to decrease. Moreover, the stage model tends to down play the possibility for managers to make voluntary strategic choices. (Melin 1997: 78.) Furthermore, according to Stubbart (1992 cited in Melin 1997: 78) stage models describe developmental history as the result of predetermined factors and pre-programmed forces but neglect the unforeseen environmental interactions and the dynamics inherently present in internationalization of the firm. In addition, stage models are perceived to downplay the individual

differences. Furthermore, Andersen (1993) concluded that the Uppsala model failed to explain how an internationalization process commences and how experiential knowledge of foreign markets affects resources commitments. These concepts were deemed to be unobservable and the explanations were found to be trivial. (Li, Li & Dalgic 2004.)

Moreover, Oviatt and McDougall (1994: 50-51) provide three exceptions for the Uppsala model. First, firms with abundant resources are expected to take large steps toward foreign markets. Second, when foreign market conditions are stable and homogeneous, experiential learning may become unessential. Third, when firms enter a new market, which is similar to their existing market, the experience of the existing market can be transferred to the new similar foreign market. The new venture theory seems to challenge the Uppsala model implicitly and explicitly. Furthermore, firms may internationalize early as entrepreneurs may already possess the necessary foreign market knowledge. The authors further argue that there is evidence that the traditional view of risk averse, stage, firm internationalization may be theoretically and empirically weak and that changing market conditions may be challenging its relevance (Oviatt & McDougall 1994; 1997: 8.)

A Review of the Innovation-Related Internationalization Models

| Bilkey and 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 and 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> |

Figure 4. Overview of internationalization models (Andersen 1993: 213).

Export expansion is usually perceived as a progressive organizational commitment leading to the formation of an international enterprise. Reid (1983: 44) argues that these deterministic export behavior models are incompatible with a perspective which views business as developing export structures to fit existing and potential foreign market opportunities. In general, some contend that the behavioral view over-emphasizes the impact of organizational experience on internationalization efforts. (Aharoni 1966 cited in Clercq, Sapienza & Crijns 2005: 410.)

The proponents of Uppsala model provide the network approach to explain how firms can overcome their lack of foreign market knowledge by collaborating with their counterparts, who have foreign market knowledge. The network approach will be covered in the subsequent section in this chapter.

2.1.3. Network theory

Johanson and Mattson (1988: 287) explain the internationalization of industrial firms by using the network model, which describes the industrial market as networks of relationships between firms. Johanson and Mattson also believe that the network model is superior to some other models of markets as it makes it possible to consider some important interdependencies and development processes on international markets. The model they have chosen for their particular study is based on the transaction cost based “theory of internalization” for multinational enterprise and the “Uppsala internationalization process model” which uses experiential learning and gradual commitment.

The industrial system is described as a system composed of firms engaged in production, distribution, and use of goods and services. This system is further described as a network of relationships between firms. There is a division of work in the network, which means that firms are dependent on each other, and their activities therefore need to be co-coordinated. However, the co-ordination is neither through an organizational

hierarchy nor through the price mechanism as in traditional market model, but rather through interaction between firms in the network. Hence, firms are free to choose their partners and thus market forces are perceived to be at play. (Johanson & Mattson 1988: 291.)

According to the network model, the internationalization of the firm means that the firm establishes and develops its position in relation to counterparts in foreign networks. The market position is distinguished into micro position and macro position. (Johanson & Mattson 1988: 293-296.)

The *micro position* is characterized as follows:

- 1) The role the firm has for the other firm
- 2) Its importance to other firm; and
- 3) The strength of the firm's relationship with other firms.

The *macro position* is characterized by:

- 1) The identity of the counterparts in the network
- 2) The role of the firm in the network;
- 3) The importance of the firm in the network; and
- 4) The strength of the relationships with the other firms.

The establishment of position can be achieved through three ways:

- 1) Establishment of position in relation to counterparts in national nets that are new to the firm (international extension);
- 2) Development of positions in an increasing resource commitments in those nets abroad in which the firm already has positions (penetration); and
- 3) Increasing co-ordination between positions in different national nets (international integration).

The firms' *degree of internationalization* informs about the extent to which the firm occupies certain positions in different national nets, and how important and integrated are those positions. When the network model is used to analyze the internationalization of industrial firms, it is pertinent to know the position of the firm in the network as the

firm's development is dependent on its position. An important consideration here is that the firm's market assets have a different structure if the firm is highly internationalized than if it is not. In addition, the market assets of the other firms in the network have a different structure depending on the high or low degree of the internationalization of the market. Hence, there are four different situations concerning internationalization process utilizing the three dimensions mentioned earlier that is extension, penetration and integration. The four different situations are depicted in Figure 5. (Johanson & Mattson 1998: 296.)

The early starter. At the outset, the firm has few important international relationships in foreign markets and hence can not depend on relationships to acquire the knowledge it lacks. Thus, the size of the firm and its resourcefulness can be considered to play a significant role. Furthermore, the importance of agents and other middlemen is reinforced during this situation. Moreover, the need for resource adjustment, in terms of investment required for capacity needed to handle the added market, would be very heavy.

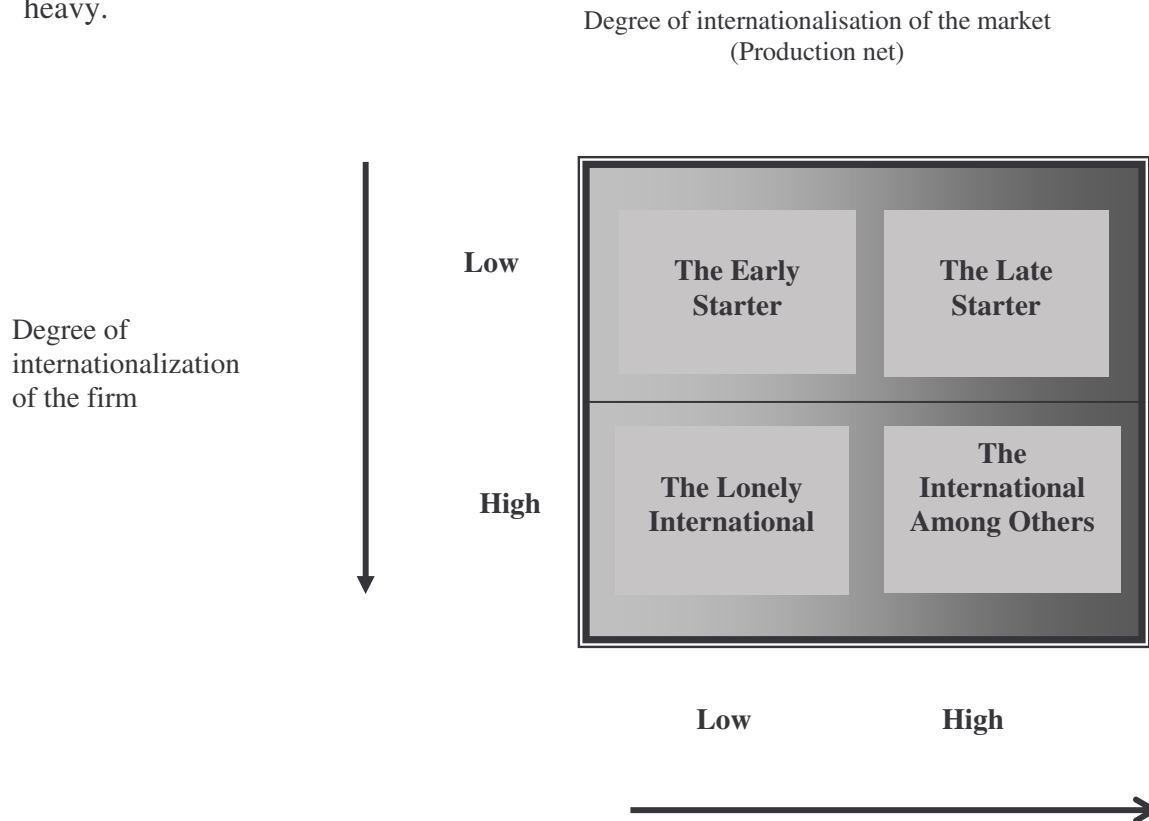


Figure 5. Internationalization and the network model (Johanson & Mattson 1988: 298).

Finally, the initiative for the early internationalization of the firm is often taken by counterparts such as distributors or users in foreign markets.

The lonely international: In this situation, the market environment of the firm is not yet internationalized while the firm is highly internationalized. This is due to the experience of relationships with foreign counterparts in foreign countries. In this situation the firm has already acquired the necessary knowledge to handle the particular environment and has also made resource adjustments. Hence, initiatives for increased internationalization do not come from other counterparts in the production net, as those who are part of this net (suppliers, competitors, and customers) are not yet internationalized.

The late starter: In this situation, the counterparts of the firm have already internationalized. As a result, the firm is pulled out from the domestic market to follow its customers or suppliers internationalization example. Hence, it does not have to go to the nearby foreign market as it could already be occupied by other competitors, but it could directly go to foreign markets where its counterparts are present as the relationship in its domestic market is the driving force for its internationalization. What is important in this situation is that the late starter needs to have a greater ability to influence the need specification of the customers or needs to have greater customer adaptation ability, as the market and is highly internationalized and firms are assumed to be more specialized.

The international among others: In this situation the market and the firm are highly internationalized and it is deemed to bring minor changes in extension and penetration if the firm was to internationalize more. However, international integration of the firm can lead to radical internationalization changes. In this situation, as the international among others firm occupies many positions in internationally linked networks, it will have access and some influence over external resources further increasing the possibility for externalization. (Johanson & Mattson 1998: 298-306.)

P1.1: The stage models with network approach explain the internationalization process of SMEs in developing countries.

2.1.4. Contingency view

In extant literature, export expansion has been perceived as a progressive organization commitment leading to an international enterprise. However, the contingency view challenges this widely held assumption. Instead, it posits that the characteristics of the market, firm resources, and available organizational responses explain export expansion. (Reid 1983: 44.) Similarly, Turnbull (1987: 37) suggests that a firm's stage of internationalization is largely determined by the operating environment, industry structure, and its own marketing strategy. Hozmuller and Kasper (1991: 46) state that in previous theoretical and empirical analyses of companies' success in export have mainly concentrated on company, market-related variables and management characteristics.

Building on earlier literature in contingency view, Hozumuller and Kasper (1991: 46) argue that besides the above-mentioned variables, there is a need to also consider organizational and personal determinants, for export centered decision and export performance. Madsen (1989: 43) studied the interaction of three factors namely firm characteristics, export marketing policy, and market characteristics. The study revealed that export marketing policy as having the largest impact on export performance. Consequently, according to contingency view, firm's international evolution is contingent upon a wide range of market specific and firm specific characteristics. Hence, external situations or opportunities may cause firms to enter markets that are psychically distant from home country. (Reid 1984; Turnbull 1987; Fletcher 2001.)

In their study on adapting to foreign markets Calof and Beamish (1995: 130) explored what explains the pattern of mode change. Their finding indicates that mode change depends on the nature of stimuli, attitudes, and mediating variables, which are

associated with the internal and external environment. Based on earlier research supporting the contingency view, Li, Li & Dalgic (2004: 98) summarized the contingency view of internationalization as accelerated internationalization process with no predictable order. They also state that according to this view, internationalization process depends on various internal and external factors. Furthermore, according to Li, Li & Dalgic (2004: 99) the contextual factors that are deemed to affect a firm's internationalization process are listed as follows:

- Initial resources
- Networking conditions with stakeholders
- Marketing strategies
- Industry characteristics.

Moreover, according to contingency view, for SMEs this perspective is deemed to be appropriate due to SMEs resource constraints and a large variety of motivations. (Li, Li & Dalgic (2004: 98-99). The specific industry and environmental factors will be covered in section 2.4.3.

P1.2: The contingency view explains the internationalization process of SMEs in developing countries.

2.1.5. Entrepreneurship theory

Although the economic and the process view provide useful knowledge of the behavior of international firms, they do not, however, provide full explanations. Hence, it is important to consider also the role of the entrepreneur (owner). Based on empirical research, strong indications were found that firm's entrepreneurs were quite different and hence, they were found to influence the firm's international processes in various ways. (Andersson 2000: 64.) There have been several studies conducted to explain the behavior of firms referred as international new venture (Oviatt & McDougal 1994) or born global (Rennie 1993 cited in Jones & Coviello 2005: 284.)

According to Oviatt and McDougal (1994: 49) international new venture is defined as a business organization, which from the inception seeks to gain significant competitive advantage by the use of resources and selling outputs in multiple countries. Rialp, Rialp & Knight (2005: 160) present an integrative review of the extant literature by examining 38 studies in the last decade that deal with international new venture, global start ups and born global firms. The authors illustrate several factors that occur in the internal or external environment of the firm, which appear to restrain or encourage the early internationalization process. These factors are summarized as follows:

- 1) Managerial global vision from the inception;
- 2) High degree of previous international experience on behalf of managers
- 3) Management commitment;
- 4) Strong use of personal and business network (networking)
- 5) Market knowledge and market commitment;
- 6) Unique intangible assets based on knowledge management;
- 7) High value creation through product differentiation, leading-edge technology products, technological innovativeness and quality leadership;
- 8) A niche-focused, proactive international strategy in geographically spread lead markets around the world from the very beginning;
- 9) Narrowly defined customer groups with strong customer orientation and close customer relationships;
- 10) Flexibility to adapt to rapidly changing external conditions and circumstances. (MacDougal et al. cited in Rialp et al. 2005: 160.)

2.2. Inward and outward internationalization

As discussed earlier in the beginning part of chapter two, the definition of internationalization as the process of increasing involvement by Welch and Luostarinen takes into account not only the outward but also the inward process of international trade. (Welch & Luostarinen 1988.) Luostarinen (1989: 105) suggests that internationalization should be viewed in the sense that it starts, develops, grows and matures through the utilization of different modes of foreign operations. Hence, a firm

is considered to have become involved in international business, not only when it sells its products abroad or starts to cooperate in some area with a foreign firm but also when it buys products from abroad. This means that internationalization of a firm may take three kinds of foreign operations (FOS). These three kinds are categorized as outward-going foreign operations (OUTFOS), inward-coming foreign operations (INFOS) and cooperative forms (COFOS) of foreign operations as depicted in Figure 6. Furthermore, Oviatt and McDougall (1997: 96) point out that internationalization is multidimensional concept. Based on Porter's (1985) value chain analysis, Oviatt and McDougall (1997: 96) further state that internationalization of each of the various organizational inputs and outputs possibly begin in the history of the firm and progress or digress at different speeds. Hence, internationalization process of a firm can be viewed as a value chain of distinct input and output activities. In the internationalization literature, the emphasis has been on the outward operations of the firm (Bilkey & Tesar 1977; Reid 1981; Johnson & Vahlne 1977, 1990.) However, there is limited number of research studies that examine the possible connection of the inward and outward sides of internationalization. (Welch & Luostarinen 1993: 44; Korhonen, Luostarinen & Welch 1996: 316; Korhonen 1999: 5.)

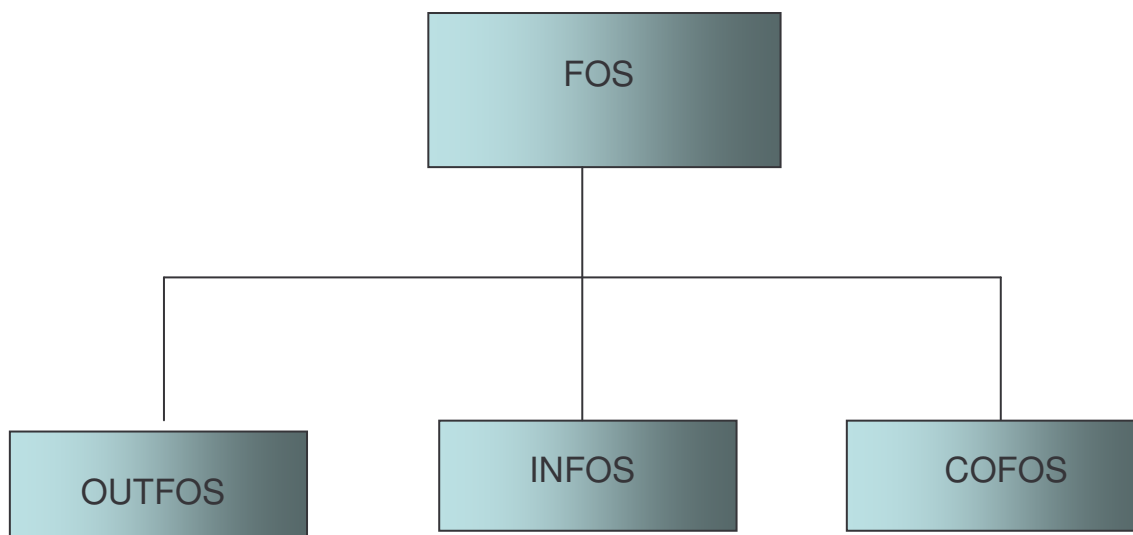


Figure 6. Division of foreign operations (Luostarinen 1989: 106).

According to Luostarinen and Welch (1990: 183), inward operations may be a prerequisite for the establishment of the firm, if the domestic sources of technical, managerial and marketing know-how are insufficient. Consequently, the entrepreneur may enter into a franchising or licensing relationship or into turnkey/turnkey plus operations in order to acquire the needed commercial and technical knowledge.

In addition, inward operations can be started at the same time the firm is established and domestic operations are initiated, which would be in the case of raw material or component or machinery import. Moreover, inward operations could also occur for the first time after the start of the firm's activities in order to improve the production process of the firm by importing new machinery, new technology through licensing or increasing business know-how through management agreement. Moreover, inward operations could also occur as a result of the sale of part of the firm to a foreign firm. Finally, it could also occur as the result of the sale of the whole firm to a foreign firm or as the result of creation of global strategic alliance (broad and longstanding) with foreign firm.

Welch and Luostarinen (1993: 44) further state that there is obviously an equivalent process of inward internationalization as companies develop foreign sourcing activities. Welch and Luostarinen (1993: 44) further state that inward process may be seen as outward process. The authors argue that the inward process might precede and influence the development of outward activities in such a way that the outcome of outward internationalization could be determined by the effectiveness of the inward activities. The import of raw materials, machinery system, services, strategic goods and inward licensing could contribute to export operations of different kinds. For instance, the import of raw material could result into export operations of the final product.

The study of inward-outward internationalization patterns of large number of domestic owned industrial SMEs revealed that 54.4% of SMEs started their foreign operations with in-ward activities. Conversely, 45% of SMEs began their foreign operations with out-ward activities. (Korhonen 1996: 319.) However, Korhonen et al. (1996: 319-320) caution that the pattern shown in the study only reveals the order of activities that is the

extent or type of influence of one stage on the next cannot be deduced from the data. Concurrently, Korhonen et al. (1996) argue that the result is suggestive of a process starting which might impact in various ways on later developments.

2.2.1. Inward internationalization process

In earlier research, both inward and outward internationalization received enough coverage. However, there has been little research in inward internationalization. According to Korhonen (1999: 31) it was only in Finland that theoretical classification and empirical research was conducted concerning inward operations by Luostarinen and his FIBO. (Finland's International Business Program, Finland) research team. In internationalization literature, there has been a paradigm shift from transaction based interactions through short and long term relationships towards networks (Korhonen 1999: 26.) Earlier studies focused on analyzing the buyer assuming that there are several options in choosing the seller the dyadic relationship between buyer and the seller in industrial marketing was neglected as researchers were more interested in explaining the transaction instead of the relationship (Korhonen 1999: 27.) The Industrial Marketing and Purchasing Group (IMP) group proposed a business interaction model challenging the earlier accepted philosophy of marketing mix. (Kotler 1997.) Håkansson & Snehota (1995: 3) view relationships as part of a broader network structure, rather than an isolated entity. Relationship can be defined as mutually oriented interaction between two reciprocally committed parties. (Håkansson & Snehota 1995: 25). Hence, there has been a paradigm shift on the inward side. (Korhonen 1999: 29.)

The inward internationalization process is similar in that the same approach is used, such as outward internationalization to identify product, operation, and market patterns. According to Welch and Luostarinen (1993: 45), the inward and outward connection may not be as obvious in the starting phase of the firm's internationalization. However, given the increasing globalization of industry, communication, travel, one could expect

that many companies would have their first international contact as potential customers of foreign companies.

2.2.2. Outward internationalization process

Product pattern: The product concept developed by Luostarinen (1989:96) was categorized to include not only goods but also services, know-how and systems. Hence, the tangible, intangible and the combination of both are included in the concept of the product. It was believed that sale of the software aspect of the product that is services, know-how, and systems have been increasing rapidly. Hence, firms with small and open domestic markets were advised to invest more in these kinds of products

Operation pattern: Internationalization is a process, which starts, develops, grows, and matures by making use of different modes of foreign operations. As there are a large number of modes, the main modes are grouped into three categories as discussed in the beginning part of the inward-outward section and also depicted in Figure 6. Outward operations are divided into subcategories based on their functional and direct investment contents. Subsequently, based on the functional orientation of firms, the outward operations are further divided into marketing operations (MOS) and production operations (POS). It is important to distinguish between the transfer of production from a domestic market to a target market and production staying in domestic market but marketing the product in a target market. The presence or absences of direct investment flow in operations is one of the characteristics of different operations. Hence, different operations can be further divided into non-investment operations (NIOS) and direct investment operations (DIOS). The classification of outward operations can be seen in Figure 7. (Luostarinen 1989: 107-109.)

Although, outward operations are categorized as mentioned earlier based on their functional orientation as MOS or POS and on their direct investment content as NIOS and DIOS, it is possible to create a combination of these categories.

| | Non-Investment Operations | Direct Investment Operations (DIOS) |
|------------------------------------|---|--|
| Marketing Operations (MOS) | <ul style="list-style-type: none"> •Export operations for good •Service export operations •Know-how export operations | <ul style="list-style-type: none"> •Sales promotion subsidiaries •Warehousing units •Service units •Sales subsidiaries |
| Production Operations (POS) | <ul style="list-style-type: none"> •Licensing operations •Franchising operations •Contract manufacturing operations •Turnkey operations •Co-production | <ul style="list-style-type: none"> •Assembling units •Manufacturing units |

Figure 7. Classification of outward operations (Luostarinen 1979: 11-23 cited in Korhonen 1999: 38).

Hence, the combined functional and investment classifications are made by putting together NIOS and MOS on one hand and DIOS and MOS on the other hand, which will result in NIMOS (non-investment marketing operations) and DIMOS (direct investment marketing operations). Continuing the same process, NIOS and POS can be put together on one hand and DIOS and POS on the other hand, which will result in NIPOS (Non Investment Production Operations) and DIPOS (Direct Investment Production Operations. (Luostarinen 1989: 109-11.) These different combinations can be clearly seen in Figure 8.

Market Pattern: There are differences between the domestic market and the target market. These market differences are conceptualized as distances, that is using the principle that the more different the target market from the domestic market, the more

distant the domestic market is from the target market and the less knowledge concerning the target market. This concept of distance is three-dimensional and includes economic, political, and geographic distances. It is important, however, to note that proximity does not reduce the need for operation specific knowledge. (Luostarinen 1989: 128-129).

| | Non Investment Operations (NIOS) | Direct Investment operations (DIOS) |
|------------------------------------|--|---|
| Marketing Operations (MOS) | Non Investment Marketing Operations (NIMOS) | Direct Investment Marketing Operations (DIMOS) |
| Production Operations (POS) | Non Investment Production Operations (NIPOS) | Direct Investment Production Operations (DIPOS) |

Figure 8. Combined functional and investment classification. (Adapted from Luostarinen 1989: 109).

Physical distance: Is described as a geographic distance between a home and a target country. In terms of the role physical distance has on general knowledge, it serves as a barrier to knowledge flow to more distant markets than to less distant market. This is due to less varied modes of information flow, less frequent information contacts, more time needed, and higher cost demand for information. For operation specific information and communication flow, the case is also similar to that of the general knowledge. Therefore, physical distance is perceived as an impediment and a restricting

force to the flow of impulses, both to the general and operation specific flows of information, communication and experience. Hence, distant countries are not easily selected or are at a disadvantage as a target market due to these inherent natures of physical distance. (Luostarinen 1989: 128-131.)

Cultural distance: Is defined as the sum of factors, which on one hand create the condition for knowledge need and on the other hand create barriers to the flow of knowledge from domestic market to target market. The difference in cultural environment is measured by three variables such as language, educational level, and economic development level. Hence, the more there is a difference in these variables between the domestic and target market, the more culturally distant is the target market from the domestic market. Consequently, long cultural distance creates barriers to knowledge flow such as the difficulty in obtaining, identifying, transmitting, and recognizing international business impulse flows to and from target market. This aspect is also evident for the flows of operation specific information and communication. The time and cost demand of collecting, transmitting and interpreting information correlates to smaller or larger degree positively with cultural distance. The existence of lateral rigidity and preferences for target markets and the firm's internationalization pattern is attributed to the role of cultural distance. (Luostarinen 1989: 130-132.)

Economic distance: The distance in economic terms is created by the difference in the economic environment, which can facilitate or impede international business, between the target and the domestic country. Trade is perceived to be created or facilitated if the demand level of the target country is higher than the domestic country. Conversely, trade is impeded if the demand level of the target country is lower than the domestic market. The economic distance is measured in many ways. One of the ways it is measured is on the basis of the difference in the demand level. The variables used to measure the demand level are gross national product (GNP) in total and per capita, and the size of the population. Hence, the greater the difference in the economic environment in favor of the target market, the greater the positive economic distance; the greater the difference in economic environment in favor of the domestic market, the greater the negative economic distance. (Luostarinen 1989: 136-137.)

All the above three distances namely geographic, economic and cultural distances are grouped into one category called *business distance*, which measure the distances between the domestic market and target market. The main assumption of the business distance concept is that the greater the distance between the domestic market and the target market, the less the firm has knowledge about the target market. Hence, on one hand, distance increases the need for knowledge but on the other hand, it prohibits knowledge flows from the target market to domestic market. Consequently, the less knowledge there is concerning the target market, the higher the lateral rigidity. (Luostarinen 1989: 124-126.) *Lateral rigidity* is defined as a typical feature, which occurs at every level of strategic decision-making behavior of the firm and pertains to every stage of the strategic decision process of the firm. This means that the ability to perceive impulses is limited, the reaction to impulses is restricted, the search for alternatives is selective, and the choice between alternatives is confined by nature. (Luostarinen 1989: 35.) Conversely, the less distance there is between the domestic and the target market, the higher the stock of knowledge there is concerning the target market and hence, the lower the level of lateral rigidity. Hence, the higher will be the preference for entering this particular target market. (Luostarinen 1989: 128-129; Korhonen 1999: 39.)

Stages and Process of outward internationalization: Internationalization is viewed as a dynamic process of the firm as there are changes in the internationalization pattern. These changes are identified on the basis of Product, Operation mode, and Market (POM) posture pattern. Hence, the state of the pattern can differ due to the introduction of a new product, utilization of a new type of operation mode and due to entry into another new market. Consequently, based on the POM-posture, an orderly chronological development process of internationalization is identified. This process is divided as follows (Luostarinen 1989: 183-195; Luostarinen & Hellman 1994: 12.)

1. Starting stage: physical goods through NIMOS
2. Development stage: services and/or DIMOS
3. Growth stage: systems and/or NIPOS
4. Mature stage: know-how and/or DIPOS

A brief conclusion concerning outward internationalization is that Product, Operation, Market patterns (POM) are important to consider in the identification of the internationalization pattern.

P2: The international behavior of firms indicates that a majority of firms undertake different forms of internationalization (i.e., inward, outward and linked at the same time)

In the next section, the study will discuss the role of management/owner in internationalization process

Role of management/owner in internationalization process

The result of the study conducted in Canada reveals that internationally experienced management makes a difference to SMEs in the Canadian software products industry. Besides this finding, which integrates both resources based and behavior based explanations for internationalization of SMEs, it also supports the study of international new ventures. The finding concerning the use of foreign partners and the presence of international experience in those who have received foreign sales early on is consistent with the characteristics ascribed to international new ventures. Hence, Oviatt and McDougall's (1994) theoretical work can be extended to SMEs that internationalize early. (Reuber & Fischer 1997: 820.)

Reuber and Fischer (1997: 807) explain why small and young firms are not necessarily disadvantaged to enter foreign markets as it was originally argued by other researchers who claimed that small firms are disadvantaged compared to larger firms. The proponents of the view that small and young firms are disadvantaged argued that larger firms can easily gain valuable knowledge and have resources at their disposal. However, Reuber and Fischer (1997: 807) claim that small and young firms can develop other mechanisms to acquire valuable knowledge and resources for internationalization of

their firms. Their study was conducted on internationalization behavior of Canadian software product firms. Their study examined the role of management team's international experience as a mechanism used to acquire valuable knowledge and resource for internationalization. The finding of their study revealed that internationally experienced management teams have a greater propensity to develop foreign strategic partners and to delay less in obtaining foreign sales after start up. These behaviors are deemed to be associated with a higher degree of internationalization. (Reuber & Fischer 1997: 807-822.)

There have been several studies on the impact of upper echelons (top management) and international new ventures. These studies have considered the impact of the top manager's exposure to foreign markets on a firm's internationalization behaviors in order to predict the propensity for exporting. The propensity for exporting was investigated by identifying the extent to which managers had engaged in foreign travel; the number of languages spoken by the manager; and whether the top decision-maker was born abroad, lived abroad or worked abroad. By utilizing these prior studies, Reuber and Fischer (1997: 808-809) identified two different behaviors that internationally experienced leaders may influence their firms to engage in, which will in turn increase the degree of internationalization.

The first behavior namely the *use of foreign strategic partners* deals with the expectation that that decision-makers with more international experience are more likely to know or to have experienced the benefits of having strategic partners. Consequently, they have developed the skills to deal with firms in foreign markets with different cultures. Hence, these possible partnerships, which have been created to enter foreign markets, are in turn expected to increase the degree of internationalization. The second behavior deals with the *speed with which foreign sales are received after start-up*. The interest here is not for how long a firm has been selling in foreign markets. Instead, it is for how long the firm delayed before selling in foreign markets. The expectation here is that internationally experienced management teams are more likely to delay less that is they are experienced with foreign markets and have also the knowledge to deal in foreign markets.

P3: A Manager's/Owner's international orientation has an influence on the internationalization process of SMEs.

Motivation to internationalize

There are several reasons why firms choose to internationalize. A key factor is the type and quality of management. In the initial phase of internationalization, one of the main attributes found to play the main role is the dynamic nature of managers. Later on, management commitment and management's perceptions and attitude are also good predictors of export success. (Czinkota & Ronkainen 2004: 226). The major motivations to go abroad are presented in Table 1. The proactive motivations deal with profit advantage, unique products, technology advantage, possessing of exclusive information, managerial initiative, tax benefit, and economies of scale. The reactive motivations are competitive pressures, overproduction, declining domestic sales, excess capacity, saturated domestic markets, and proximity to customers and ports. Hence, it is important to identify what has triggered firms to internationalize their operations to better understand the internationalization process of firms.

Table 1. Motivation for firm's internationalization (Czinkota & Ronkainen 2004: 226).

| Why Firms Go International | |
|--|--|
| Proactive Motivations | Reactive Motivations |
| <ul style="list-style-type: none"> •Profit advantage •Unique products •Technological Advantage •Exclusive information •Managerial urge •Tax benefit •Economies of scale | <ul style="list-style-type: none"> •Competitive pressures •Overproduction •Declining domestic sales •Excess capacity •Saturated domestic markets •Proximity to customers and ports |

P4: The Majority of the firms internationalize their operations because of reactive motivations.

2.3. Internationalization of SMEs

In a study on the internationalization of small and medium sized firms, Clercq, Sapienza and Crijns (2005: 409) conducted a survey study undertook exploratory interviews on 500 firms. The authors used internationalization intent, international learning effort, domestic learning effort, and entrepreneurial orientation in their study. They used firms' international learning effort and entrepreneurial orientation as independent variables and current degree of internationalization and current sales volume as control variables. The result of their study seems to suggest that intensive knowledge renewal and knowledge exploitation regarding foreign markets may increase internationalization. The second result was that firms with an entrepreneurial mindset might be more likely to develop a long-term, significant presence in the international arena, compared to firms that are more passive and reactive.

Larimo (2003: 258-279) analyzed the internationalization of SMEs specifically those companies that were born global. A case study on two Finnish companies was conducted. The aim of the study was to find out whether the main features of the Nordic models of internationalization fit the internationalization of born global companies. The result indicated that the behavior of both case companies was based on their sales objective, marketing, and operation mode strategies. These companies started with physical products and in culturally close countries and used traditional exports to the target countries. Hence, this finding seems to support the Nordic internationalization models in the above mentioned aspect. However, in terms of the timing of expansion, the process was not slow but was an extremely rapid process. Larimo (2003: 279) further claims that born global companies behave in several respects according to an evolutionary framework that is following Nordic internationalization model.

In his study on internationalization, strategic behavior, and the small firm of UK SMEs, Kalantaridis (2004) finding reveals that there is only a weak relationship between the incidence of strategy and the size of the firm in internationalized firms. In addition, the finding also supports the argument developed by OECD (1997 cited in Kalantaridis 2004) that small-scale enterprises tend to be more flexible in terms of their strategy compared to their medium and large scale counterparts.

According to the finding of Calof and Viviers's (1995: 76), the export behavior of South African SMEs seems not to be very different compared to SMEs in other countries. In most cases, the more the firm was advanced in terms of the export stage, the perception of the costs and risks to exporting was lower, and while the perceived benefit was higher. Hence, their finding seemed to give support to the stage model of internationalization.

2.3.1. Towards a holistic approach to internationalization of SMEs

Li, Li, and Dalgic (2004: 94) suggest that the establishment of the hybrid model would be helpful for examining the internationalization process of small and medium-sized enterprises (SMEs). The authors further provide three reasons for the need to establish a hybrid model. First, SMEs have limited resources to apportion for information and knowledge acquisition concerning foreign markets. Due to their limited resources, SMEs usually do not perform systematic planning process compared to big firms. Second, SMEs are inexperienced when it comes to foreign markets and hence experience uncertainty pertaining to foreign markets. Third, as the world is increasingly becoming globalized, SMEs start their entry into foreign markets in a global environment and have to seize opportunities in foreign markets in timely manner compared to MNEs two or three decades ago. Internationalization of SMEs is expected to gain momentum as the world economy is becoming more integrated with increasing decline in national market barriers and advances in technology. (Lu & Beamish 2001: 565.)

Coviello and McAuley's (1999) paper on the internationalization of smaller firm reviews and assesses recent empirical research on the topic. The authors indicate that small and medium-sized enterprises (SMEs) are increasingly active in international market. The authors suggest that there is a growing interest in research to understand the processes and patterns that explain how smaller firms increase their involvement in the international market over time. The paper discusses the internationalization concept and provides a summary of the major schools of research, such as the FDI theory, the stage model, and the network perspective. However, the paper operationalized an integrative definition of internationalization as the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future and establish and conduct transactions with other countries. (Beamish 1990: 77.)

According to IFC's classification, SMEs are those companies that have total assets or sales less than \$15 million. Other authors use the number of employees to determine whether a firm is SME or not. However, for this study IFC's classification will be used. (UNIDO 2004: 2). In terms of the findings from the theoretical review, Coviello & McAuley (1999: 231-240) point out that there is a trend in SME literature towards combining the three theoretical frameworks (FDI theory, stage models, and network perspective). It seems that two of theoretical frameworks namely the stage models and network perspective have evolved to dominant contemporary SME research. In addition, the authors argue that the three schools are not truly distinct from each other. It was found that the FDI theory reflects a staged managerial learning process indicating the overlap between FDI and organizational learning in the internationalization process. In addition, other researchers have also found the influence of network relationships on the stages of internationalization. Hence, the FDI theory, the stage model, and the network perspective provide complementary views to the internationalization concept.

2.3.2. Internationalization of firms from developing countries

There has been several research efforts exploring and describing the export problems of encountered by firms from developing countries. (Ghauri, Lutz and Tesfom 2001: 728-

729). This section utilizes literature for internationalization of firms in developing countries. The central literatures used in this section may include large firms besides SMEs. However, the emphasis will be on SMEs.

In terms of overcoming export problems, networks have been proposed as a mechanism to overcome export-marketing problems for manufacturing companies from developing countries. In the extant literature, there is a growing body of knowledge that suggests that export problems are time, industry, state, and country specific. Hence, most of these export-marketing problems are expected to be similar between the developed and developing countries. This is because networks are expected to enhance the possibilities for individual companies to invest in the sunk cost of export market penetration. (Ghauri, Lutz & Tesfom 2001: 728-729.)

In another similar study on small firms' internationalization in Tanzania, Rutashobya and Jaensson (2004: 159) conducted a survey study on 40 companies and also case studies on four handicraft export enterprises in Tanzania. The results of the study revealed that a large number of firms had less than 10 years of export experience. In terms of these firms participation in networks and linkages, the findings showed that many owner managers belonged to at least more than one network relationship. In addition, with the exception of linkages with producers and export houses, most other networks were of informal character. Foreign market entry modes included indirect exporting, direct exporting. In addition, some owner managers had more than one export channel. Those with long export experience were found to maintain long-term relations with foreign independent distributors.

In literature pertaining to export marketing in developing countries, the use of networks in overcoming the export challenges that firms face is clearly emphasized. (Ghauri, Lutz & Tesfom 2001). The World Bank has defined third world countries as those countries having less than \$7,300 annual GNP per capita. This category includes countries in Asia, Africa, the Middle East, the Caribbean, Central America and South America. These countries have been further divided into low-income economies \$400-1,700 and upper middle income economies \$1,700-7,300 (annual GNP per capita). (Cavusgil and

Ghuri 1990: 1-2). As a central literature in terms of internationalization of firms in developing countries, this study utilizes researches listed in Table 2. In their study on the determinants of Less Developed Countries (LDC) exporters' performance, Dominguez & Sequeira (1993) explored the role of strategic decision and firm characteristics on exporters' performance based on a cross-national survey of non traditional export sector in Central America. Data was collected from 229 non-traditional exporters from Costa Rica, El Salvador, Guatemala, Honduras, and Panama and companies. The results of their study revealed the importance of entrepreneurial initiative in the success of export diversification programs.

Table 2. Central researches on internationalization of firms in developing countries.

| Author | Research Topic | Target companies |
|----------------------------|---|---|
| Dominguez & Sequeira 1993 | Determinants of LDC exporters' performance: A cross-national study | 229 companies (Costa Rica), 85 companies (El Salvador), 162 companies (Guatemala), 73 companies Honduras, and 58 companies (Panama) conducting non traditional exports. Conducted survey research |
| Das, Mallika | Successful and unsuccessful exporters form developing countries | 58 export companies in India from both traditional and non-traditional sector (7 different Industries). Conducted interview research |
| Calof & Viviers 1995 | Internationalization behavior of South African Enterprises | 900 South African SMEs from different industries. Conducted survey research |
| Kuada & Sorensen 2000 | Internationalization of companies from developing countries | 20 export companies in Ghana from processed food items and manufactured items sector. Conducted interview research |
| Ghuri, Lutz & Tesfom 2001 | Using networks to solve export marketing problems of small and medium sized firms from developing countries | 5 companies in Norway, Australia, Peru, Finland, Nicaragua from hay processing Industry, manufacturing Industry, all industries, textile Industry, furniture industry respectively. Conducted case study. |
| Ibeh 2003 | Toward a contingency framework of export entrepreneurship: conceptualizations and empirical evidence | 226 companies (surveyed) and 9 companies (interviewed) in Nigeria from labor intensive, light manufactured goods sector |
| Rutashobya & Jaensson 2004 | Small firms' internationalization for development in Tanzania: exploring the network phenomenon | 40 companies (surveyed) 4 case handicraft export enterprises in Tanzania |

Their study also identified three patterns of performance among the target Central American firms. The first pattern identified was low-volume, low content exporters, which constituted the largest Central American groups. In this group, a number of firms

may export only sporadically and may be satisfied with a modest export volume. The second pattern identified was high volume – high growth exporters. In this group, firms exported fourteen times as much as the first group and they had the largest number of clients in their principal export market. The third pattern identified was of differentiated marketers. These groups were considered to be most reliant on product-service quality improvement and were the heaviest users of market research. However, there were only few companies in this group.

In his study on successful and unsuccessful exporters from developing countries, Das (1994: 19) examined the impact of relationship, managerial, organizational and external factors on export performance. The aim of the study was to differentiate between successful and unsuccessful exporters from India and develop profiles for successful exporters. In addition, the study also aimed to compare the characteristics of successful Indian exporters with those from developed nations identified in previous researches. Export success was measured by using percentage of exports sales (export intensity) and growth in export volume during the past five years. The result of his study indicates that the nature of the product and the destination of the products may be the key factors in determining the success of developing country exporters. In addition, the result highlights the importance of examining external factors when studying export success. Industry competitiveness and destination exports were also found to be key factors in determining export success of firms. Furthermore, the results indicate that it might be important to use more than one measure for export performance.

Moreover, Das (1994: 29) suggests that it is important to look at different factors affecting export performance. According to Calof and Viviers (1995), who conducted a study on internationalization of South African SMEs, the export behavior of South African SMEs is not very different from that of SMEs in other countries. The result of their study suggest that mostly the more advanced the firm in terms of export stage, the lower the perception of the costs and risks of exporting while the perceived benefits were higher. Their finding supports the stage models of internationalization. In addition, their study also revealed that export to South Africa's closest African neighboring countries was limited.

Kuada and Sorensen (2000) studied 20 export companies in Ghana from processed food items and manufactured items sector. They argue that the contemporary theories of internationalization are of limited relevance in explaining and guiding the internationalization process of Ghanaian firms by extension, firms in other developing countries. The empirical evidence of their study challenges the conventional perception that firms start their internationalization process by exporting to nearby, culturally similar markets. Other evidence from Kenya in terms of horticultural export also suggests that export is directed towards Western Europe, and mainly United Kingdom, which could be attributed to close macroeconomic and political ties between the two countries. In addition, as many Kenyans have lived, worked and/or studied in the United Kingdom, the information barrier is reduced between the two countries. Furthermore, the decision of Ghanaian, Kenyan, and other African firms to sell fresh pineapples and other related products to European customers is reinforced by the fact that these countries represent the world's leading import markets for fresh fruits and other related products. (Jaffe 1993 cited in Kuada and Sorensen 2000: 127-128).

The ability to learn from Western experience had a tremendous effect on emerging markets. Importing technologies and knowledge from industrial leaders has allowed many developing countries to catch up or aim to catch up with the Western world. Due to the decline in market barriers, developing countries are becoming a magnet for foreign investment. (Cavusgil, Ghauri & Agarwal 2002: 2.)

For those developing countries that used to be socialist countries, their trade history is different and hence, this factor should be taken into account. Their trade history is different due to the difference in their political system and ideology they followed prior to their becoming part of the market economy. However, certain aspects of the command economy are still inherent in their system. For instance, in the former Soviet Union, East Europe and also China, the state had a monopoly on foreign trade. As a result, firms and consumers in socialist economies were separated from the West. Consequently, as demand and supply were separated, there was no regard to market

forces, resources were misallocated and the lack of competition caused inherent inefficiency in the companies. (Czinkota & Ronkainen 2001: 748-749.)

Privatization of state owned enterprises has been increasing in the world, including in those countries, which used to be socialist countries. Governments are increasingly recognizing that it is possible to reduce the cost of governing by changing their role and involvement in the economy. Through privatization, governments can cut their budget costs and still ensure that more efficient services not fewer services are provided to the people. In addition, the product or service may also become more productive and more innovative and may expand choices for the private sector. Privatization now seems to have become a key element of economic strategy around the world, from Asia to Africa and Latin America to Europe. (Czinkota & Ronkainen 2001: 762.)

In a study conducted comparing the export marketing channel, between developed and developing countries, Tesfom, Lutz and Ghauri (2004: 409-415) discuss the distribution challenges that manufacturers in developing countries face by using the case example of Eritrea footwear companies. The finding reveals that it could be easier for Eritrea footwear companies to export to Netherlands than export to Uganda, located in the same region of East Africa. This finding was thought to be due to the difference in export market channel design with Uganda and Netherlands, which in turn was deemed to be caused by transaction cost. The Ugandan buyers were found to be more spot buyers. In Netherlands, wholesalers and retailers placed emphasis on their need to have information concerning the product, the type of machines used, the financial position and the production skills of a manufacturer in Eritrea. Furthermore, these retailers and manufacturers interviewed in the study pointed out that trust and reputation were crucial for the exchange process.

In his study on export entrepreneurship, Ibeh (2003: 49-68) employed a contingency, export entrepreneurial approach to investigate the critical influences on export venture creation among a sample of Nigerian small firms. The study used a survey research and interview method and hence 226 companies were surveyed and 9 companies were interviewed from Nigeria's labor intensive, light manufactured goods sector. The result of his finding indicates that firms can be distinguished based on their export-

entrepreneurial orientation level. Through in-depth interview more insight was also gained that high export entrepreneurial cluster (fashion designing company) had developed its major market (USA) through relationship building with market based representatives and merchandisers, including participation in fashion shows and exhibitions.

2.3.3. Environmental and industry analysis

As the companies involved in internationalizing their businesses in Ethiopia are predominately SMEs, it is important to focus on these types of companies and test existing internationalization theories. Hence, this section will deal with contextual factors such as the industry but it will first analyze the environmental factors that could impact the internationalization process of SMEs.

Economic factors: The Ethiopian economy remains heavily dependent on agriculture, which accounts for about 50 percent of GDP. An Estimated 85 percent of the population gains its livelihood directly or indirectly from agricultural Production. It has been only 15 years since Ethiopia began moving from a state run economy to the market economy. The country is in the process of taking various reform measures. The country's development strategy is based on Agricultural Development led Industrialization. (Addis Chamber of Commerce 2006.)

Major gains have been made from the reform program, particularly as a result of liberalization, low inflation, fiscal discipline and low government borrowing, infrastructure improvement and the growth of the private sector. The Government started initiating privatization program in 1995/96. Regulatory Environment: Since the launching of the new market oriented Economic Policy, in 1991, a number of policy measures and reforms have been undertaken to improve the climate for private businesses.

The reforms include revision of the investment code, labor code, tax policies, foreign trade policies, financial policies, and others. The main export products in Ethiopia are agricultural products. Agriculture products constitute 90% of the export of the country. From the agriculture product, export of coffee constitutes 70% of agriculture exports and 65% of the total export of the country. In addition, other commodities and unprocessed products such as Hides and skins, and others take the major share of export besides coffee. Leather, hides & Skins export increased to 618.2 million Birr (Ethiopian Currency) in 2000/2001 (Addis Chamber of Commerce 2006.)

Government support: In terms of government support, the government has established institutions like Ethiopian export promotion agency, Ethiopian leather technology institute, textile engineering institute and federal micro and small enterprises development agencies, which can provide support services for the promotion of the private sector. These institutions also serve as facilitators or forums for policy dialogues between the government and the private sector. Besides, there are chambers of commerce (the main chamber of commerce in the capital city) and other city chambers which have established permanent public private dialogue forums. (Addis Chamber of Commerce 2006.)

Geographic factors: Buckley & Casson (1991: 32-33) present two main obstacles to efficient use of national resources as a necessary condition for development, such as geographical factors and entrepreneurial culture, that influence entrepôt potential. From the geographic factors, the identified factors are: location near to major long-distance freight transport routes, harbor with inland river system, extensive coastline, land and climate suitable for agriculture with potential for local downstream process, and mineral deposits and energy resources. Based on the above mentioned obstacles, when Ethiopia's geographic factors are analyzed, it seems that some of the geographic factors are not yet favorable such as extensive coastline as it is land-locked

Social and cultural factors: Buckley & Casson (1991: 32-33) provided two obstacles that could influence the process of development in any country. As mentioned earlier, one of the two obstacles identified is *entrepreneurial culture*. The authors have distinguished between technical aspects and moral aspects of entrepreneurial culture.

The technical aspect deals with the presence of:

1. Scientific attitude including systemic view;
2. Judgment skills (including ability to simplify, self-confidence, and detached perception of risk, understanding of delegation).

The moral aspect of entrepreneurial culture deals with:

1. Voluntarism and tolerance;
2. High norms in respect of effort, quality of work, accumulation of wealth, social distinction and others, association with trust;
3. Associations with trust, which include, firstly, general commitment to principles of honesty, stewardship, and related others. Secondly, a sense of corporate mission that will build trust. Thirdly, versatile personal bonding (friendship not confined to kin). Fourthly, weak attachments to specific locations, roles, and others.

In the case of Ethiopia, it will be important to take into account the 17 years that the country was under a socialist system. This historical factor could have an influence on the entrepreneurial culture. As command economy did not encourage high norms with respect to effort, quality of work, accumulation of wealth, social distinction and others.

2.3.4. Apparel industry in Ethiopia

Ethiopia has a comparative advantage in terms of producing textile and apparel. It offers cheap skilled labor. In addition, the country's climate is considered to be suitable for cotton growing and hence, with easy access to needed natural resources. Large textile factories exist that supply yarn and fabric, which have become the largest employers in the country. However, the textile industry has been characterized by outdated technology and also produces below capacity. Hence, in most cases, the industry has been unable to meet international market standards. As the result, 14 firms were

privatized in 1996. In addition to these privatization initiatives, similar other measures undertaken by the government are expected to revitalize the textile and apparel sector. (International Market Research, 2003.)

The Textile and apparel sector is considered to be one of the most important sectors that contribute to the GDP. This sector is the second largest manufacturing sub sector after agriculture processing sector. The textile and apparel sector employed around 30,000 in 1998, which constituted 31 percent of the total manufacturing labor force. This sector produced around \$94 million in 1998. (International Market Research, 2003.)

In terms of the role of the government in the apparel industry, it has been actively engaged in liberalizing the economy as mentioned earlier with a series of privatization initiatives in under performing sectors. Hence, over 200 state owned enterprises have been privatized since 1996. (International Market Research, 2003.)

Type of Enterprises: Within the textile sector, the CSA (2002 cited in EBDSN) distinguishes four types of establishments. The most numerous are the establishments involved in spinning, weaving and finishing of textiles, and they also have a relatively large average number of workers per establishment (776). The proportion of public enterprises is 38% and it is larger than in the leather sector, whereby the proportion is 13%. About two-thirds of the enterprises in spinning, weaving & finishing of textiles are public; however, none of the small knitting mills are public (EBDSN 2006.) Apparel industry establishment, and employment are presented in appendix 1.

Products: When a review is conducted concerning what kind of products are produced and the changes in quantity over a number of years (1992 – 2000), it shows that some of the products are on the increase and have even increased (in 1998/99 or 1999/2000). These products, which are on the increase are lint cotton, woolen and other blankets, wearing apparel (except leather) and others. Moreover, cotton and nylon fabrics, cotton yarn and others are fairly stable. On the other had, a number of products are clearly on the decline in quantity produced such as acrylic yarn, waste cotton blankets, bed sheets, shirts, carpets, leather wearing apparel and sweaters. (EBDSN 2006.)

Export: The development of textile export has been constrained over the years by many factors. Some of the challenges faced by the textile enterprises in the past are still persisting, such as overly bureaucratic rules and regulations, lack of modern technology, inconvenient bank rules and procedures, and poor infrastructure (Taye 1997 cited in EBDSN). In a recent forum on the status of the textile and garment industry, representatives of the government and the business community concluded that nowadays the major problems responsible for the deteriorating condition of this industry are: mismanagement, financial constraints, impediments posed by the contraband trade and scarcity of spare parts. (Tamiru 2002 cited in EBDSN.)

According to China Daily (2006), Ethiopia is the major source of the globe's finest and most sought-after leather varieties, with the hardy breed of highland hair sheep known as Cabretta. In addition, Leather is considered to be a vital industry to Ethiopia, with its products sold to Italy, Britain and, increasingly, China. As the second export only following coffee in terms of earnings, leather has the potential to overtake coffee and become a serious source of much-needed revenues.

2.4. Synthesis

At the outset, the aim of this study is to investigate the internationalization of SMEs, by using the Ethiopian Apparel SMEs. Hence, based on previous research and mainly to answer to the call of Coviello and McAuley (1999: 231-240) a *holistic approach* to the study of internationalization of SMEs was believed to be suitable to explain the internationalization of SMEs from developing countries. Consequently, in previous section, an attempt has been made to explore the different internationalization models such as FDI, eclectic, Nordic models (Uppsala and Luostarinen's models of internationalization), network approach, contingency view, role of managers/owners, and the specific environmental and industrial factors in relation to contingency view were covered. From Luostarinen's internationalization model, more emphasis is given

to inward and outward activities of firms. This study also aims to identify the connection between the inward activities and the outward activities. This study also has tried to be balanced in the sense that critics of different models deemed to be important were presented. The study also tried to highlight the different motivations for internationalization such as the proactive and reactive motivations. The factors pertaining to both proactive and reactive motivations were also listed.

In addition, this study also explored earlier research in the study of internationalization of SMEs in general and also in developing countries. The main objective of this study is to find out whether internationalization of SMEs in developing countries follows the same path as developed countries. Finally, a conceptual model is presented in Figure 10, which has drawn some elements from Fletcher (2001.).

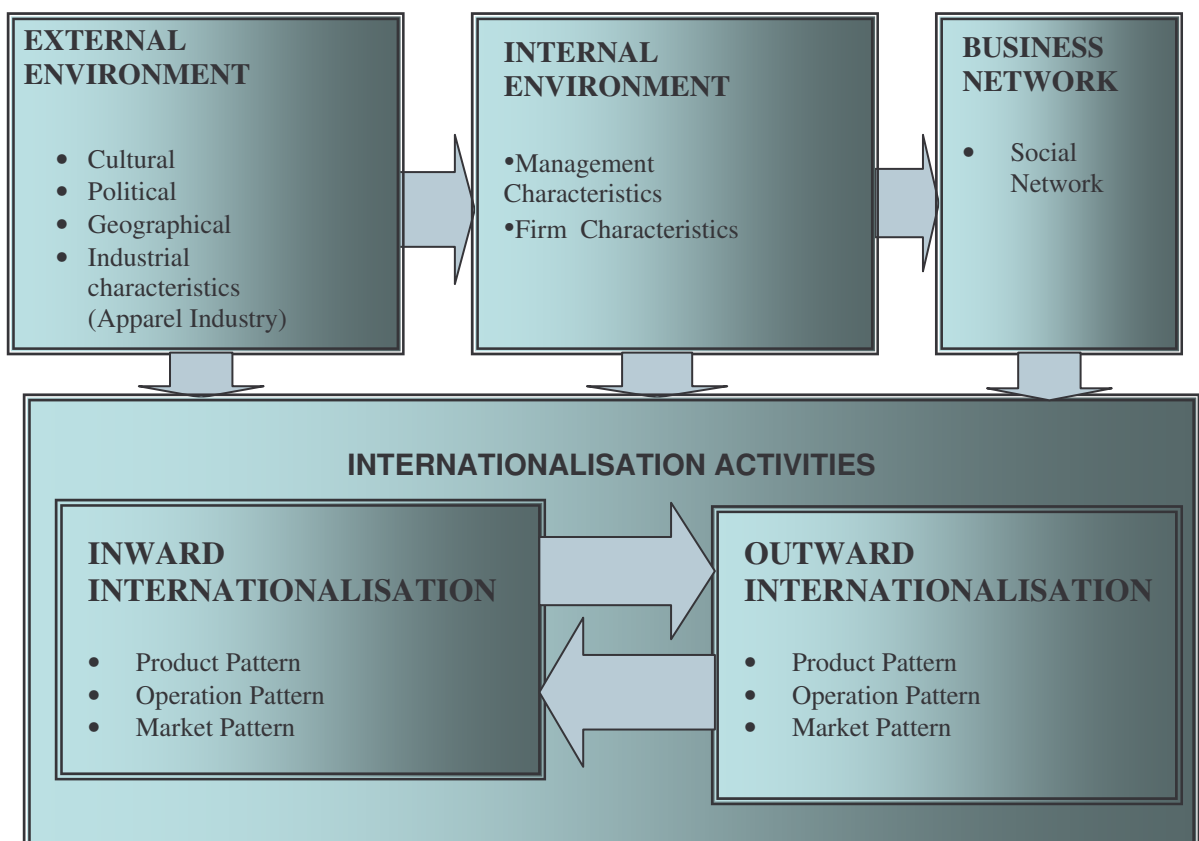


Figure 9. Conceptual framework

Table 3. Propositions

| | |
|-----------------|---|
| Proposition 1.1 | The stage models of internationalization with the network approach, explain the internationalization process of SMEs in developing countries. |
| Proposition 1.2 | Contingency view explains the internationalization process of SMEs in developing countries. |
| Proposition 2 | The international behavior of firms indicates that the majority of firms undertake different forms of internationalization that is outward, inward and linked at the same time. |
| Proposition 3 | A manager's/owner's international orientation has a positive impact on the internationalization process of SMEs. |
| Proposition 4 | The Majority of the firms internationalize their operations because of reactive motivations. |

3. RESEARCH METHODOLOGY

The third chapter of this research deals with the methodology of the empirical research conducted among Ethiopian apparel SMEs. The empirical study was conducted in order to identify the internationalization path that SMEs in developing countries have taken and what factors have influenced their internationalization process. Additionally, the study also aims to identify their motivation to internationalize their operations. In the beginning section of this chapter, the research design, and data collection are discussed. In the later part of this chapter, target survey population and survey validity and reliability are presented.

3.1. Research design

The empirical investigation is quantitative and this study has used questionnaire-based survey. According to Saunders and Thornhill (2003: 92), surveys allow the collection of a large amount of the data from a sizeable population in a highly economical way. Maylor and Blackmon (2005: 182) state that surveys are useful for capturing facts, opinions, behaviors or attitudes. One of the tools and techniques associated with survey designs is the use of questionnaire. Data is often obtained by using a questionnaire; these data are standardized, which allow easy comparison. In addition, using survey strategy will allow the researcher to have more control over the research process. (Saunders & Thornhill 2003). The study is explanatory study in the sense that it tries to study the variables involved and attempts to explain the relationship between variables. (Saunders & Thornhill 2003: 89, 97-98.)

This study aims to focus on identifying different variable influencing/impacting internationalization process of the apparel industry. As Arber (1993: 38 cited in Silverman 2000) indicates the purpose of sampling is usually to study a representative subsection of a precisely defined population in order to make inferences about the

whole population. Thus, this quantitative study can serve as a point of inference for SMEs in developing countries.

3.2. Data collection

Data was collected by conducting survey questionnaire on 28 companies. The Ethiopian Ministry of Trade provided a list of 27 Ethiopian apparel export companies (public and private) during the summer of 2006. More companies were added to the list by using secondary sources such as the internet to identify new companies which were not in the main list provided by the Ministry of Trade. Hence, the study is a *census study* of the Ethiopian apparel export companies.

To complement this study, other data sources such as secondary data, in particular, company brochures, trade journals, online business news pertaining to Ethiopian apparel industry, has been utilized extensively. Data was collected by using survey questionnaire. The method used for data collection was drop and collect method. In addition, telephone follow-up conversations have also shed some light in understanding the internationalization of SMEs and hence the important discussions are incorporated in the empirical findings and the ensuing conclusions.

Empirical evidence in survey research suggests the effectiveness of the drop and collect survey (DCS) method in enhancing response rates among sub-Saharan African (SSA) organizations. In terms of conducting survey in the developing countries, DCS is a data-collection technique that appears to overcome most of the shortcomings of the other survey data collection methods. The other survey data collection methods, such as the mail survey, are characterized by unreliable postal system. Due to poor standard of research support infrastructure, conducting telephone, fax and Internet based survey research could be cumbersome. (Inbeh & Brock 2004: 376; Goodyear 1982; Mytoon 1996 cited in Inbeh & Brock 2004: 376.)

Prior to sending the survey questionnaire, however, three companies were selected as a pilot study in order to test the questionnaire. Based on the feedback of the pilot study respondents, the questionnaire was modified. Consequently, the modified questionnaire was sent to the rest of the companies on the list. To conduct the drop and delivery of the survey questionnaire, a person trained by the researcher was used. The research assistant delivered the questionnaire to the respondents and later collected it when it was completed. There were on the average about three follow-up visits and on the average about two follow-up telephone calls to prompt and remind respondents to fill the questionnaire. The final collected questionnaire was then sent to the researcher by ordinary mail.

The questionnaire was organized into nine parts. The first part included questions on 1) background questions, 2) primary field of business, 3) number of employees at start of the company and in 2006 and the percentage of employees involved in international activity (50% of their time), 4) total revenue, percentage in international sales, and percentage in international sales from different regions. Questions presented in the second part were about description of international activity (inward, outward and linked), timing of international activity, operation modes used in foreign markets and how a firm began its international activity. In the third part of the questionnaire, motivation for international activities was measured. In the fourth part, major environmental factors posing challenges in international markets and factors preventing or disturbing the flow of information were measured. In the fifth part, management characteristics were measured. In the sixth part, firm characteristics were measured. In the seventh part, relationship and internationalization were measured. In the eighth part, performance of the company was measured. Finally, in the ninth part, opinions about the future of the company's international operations were measured.

The questionnaire was produced in English. A sample of the questionnaire is attached to the appendices (see Appendix 2).

3.3. Target survey population

The national target population of the research consists of apparel SMEs in Ethiopia involved in exporting. The target SMEs are not only private but also public enterprises. In order to identify the target companies, the Ethiopian Ministry of Trade database of public and private textile and garment companies was used. The original list from the Ethiopian Ministry of Trade consisted of 27 companies (15 private companies and 12 public companies some of them privatized). The other lists, which were later incorporated into this study, had the same companies listed on the Ethiopian Ministry of Trade but also some more additional companies. From the original list, it was found out that some companies have ceased to export. In terms of the other lists used for this study, Internet databases such as Business Development Services and the database of Made in Ethiopia were used. An attempt was made to contact 30 apparel companies as target companies. However, 2 companies could not be reached, as it seems either they have ceased to exist or they have not listed their current business locations in the relevant databases. The reasons for those who have not responded ranged from the fact that currently they do not have export operations, are currently privatized and do not have information on previous company activities, were extremely busy to fill a questionnaire (two respondents). This study has used the total population of apparel export companies in Ethiopia. Hence this study can be considered to be a *census study* of the apparel export companies in Ethiopia.

Table 4, the number of sent, received questionnaires and response rate is presented. In total 19 responses were received resulting in 68 percent return and 18 were usable resulting in a response rate of 64 percent. As this study has used the total population of apparel export companies in Ethiopia, the response rate can be considered to be relatively high. The mean year of establishment for the respondent companies was 1993. In terms of the participating companies, 22,2 percent were public and 78,8 percent were from the private sector of the apparel industry. The mean establishment year for the private companies was 1999 and for the public companies was 1976. The mode value for all the respondent companies was 2003. In order to fill-up some of the

missing or contradictory data that came up during the coding process, respondents were contacted by phone. The European Union's classification for SMEs did not fit this study as Ethiopian companies could have 3000 employees but their annual turnover is still less than 15 million euros. Hence, IFC's classification was used. As mentioned earlier, according to IFC's classification, SMEs are those companies that have total assets or sales less than \$15 million. IFC stands for International Finance Corporation, which is a private sector arm of the World Bank. Other authors use the number of employees to determine whether a company is SME or not. However, for this study IFC's classification will be used. (UNIDO 2004: 2.)

Table 4. Number of sent, received questionnaires and response rates.

| | |
|------------------------|-----|
| | |
| Questionnaire sent | 28 |
| Questionnaire received | 19 |
| Response Rate | 68% |
| Usable Rate | 64% |

3.4. Survey validity and reliability

Validity refers to the degree to which the survey instrument assesses what it purports to measure. There are four types of validity namely content, face, criterion, and construct. (Fink 1995: 49). *Content validity* refers to the extent to which a measure thoroughly and appropriately assesses the skills or characteristics it is intended to measure. Content validity is presented as an overall opinion of a group of trained judges. *Face Validity* refers to how a measure appears on the surface. It assesses whether the measure is asking all the needed questions. In addition, it also assesses whether the appropriate language and language level has been used. *Criterion validity* compares responses to future performance or to those obtained from other more well established surveys. *Criterion validity* comprises of two subcategories namely predictive validity and concurrent validity. *Predictive validity* refers to the extent to which a measure forecasts

future performance. *Concurrent validity* is considered to be demonstrated when two assessments agree or a new measure is compared favorably with one that is already considered valid (scientific measurement of some factor). (Fink 1995: 49-51, Litwin 1995). *Construct validity* deals with the extent to which an operationalization measures the concept which claims to measure. (Zaltman et.al. 1997: 44 cited in Ghauri & Gronhaug 2005: 83). Construct validity is a measure of how meaningful the scale or survey instrument is when in practical use. It is thought to comprise two other forms of validity namely convergent and divergent. *Convergent validity* implies the use of several different methods of obtaining the same information about a given trait or concept. Divergent (discriminant) validity estimates the underlying truth in a given area. This is usually shown when similar but distinct concepts or traits not correlate too closely with the survey instrument. (Litwin 1995: 43-44.)

In this research, a thorough literature review was conducted prior to designing the research. The validity in measurement has been taken into account by using a questionnaire, for which most of the constructs have been pre-validated in Nordic countries. As most of the questions were adopted from a questionnaire developed in autumn 2001 in a Nordic cooperation project (Vahvaselkä 2006: 159,277-283) and other similar studies, one can claim that the validity of this study has been enhanced. Hence for the most part, face validity, criterion validity, predictive validity and construct validity have been taken into account.

Reliability is a statistical measure of how reproducible the survey instrument's data are. In survey research, there is a need to minimize errors such as random error and measurement errors. *Random error* can be caused by many different factors but is affected primarily by sampling techniques. *Measurement error* refers to how well or poorly a particular instrument performs in a given population. The lower the measurement error, the closer the data are to the truth. (Litwin 1995: 6, 30, 5-6). As the data in this study is from the whole population of Ethiopian exporters in the apparel industry, random error can be thought to be close to zero. In terms of the measurement error, most of the items in the questionnaire have been tested on SMEs in Nordic countries, other developed countries and also some developing countries. In addition,

before administering questionnaire, pilot study was conducted on three companies that is on 10% of the population, hence the measurement error have been minimized.

There are three forms by which reliability is commonly assessed namely test-retest, alternate-form, and internal consistence. (Litwin 1995: 8-13). *Test retest* is sometimes referred to as stability. (Fink 1995: 47). *Alternate-Form reliability* offers one way to avoid the problem of the practice effect. It involves using differently worded items to measure the same attribute at two different points in time. *Internal consistency reliability or equivalency* is another most commonly used psychometric measure of survey instruments and scales. Internal consistency is an indicator of how well the different items measure the same issue. It is applied not to single items but to groups of items that are thought to measure different aspects of the same concept in a survey questionnaire. Using several different items to measure one behavior or topic will make the data set richer and more reliable. (Litwin 1995: 8-21, Fink 1995: 47). Internal consistency is also sometimes referred to as *homogeneity*. (Fink1995: 48).

For this study, different items were used to measure internationalization process of the firm. For possible environmental factors that may influence the firm's internationalization process several factors both internal and external were used. In addition, to determine the influence of management and management's international orientation, several different management characteristics were used. Hence, *the internal consistency reliability* of this study, has been enhanced, by using several different items to measure patterns of internationalization, and motivation to internationalize. In addition, to shed more light and identity other factors at play that could influence the internationalization of the firm, several different items were used for firm characteristics, management characteristics and others.

4. EMPIRICAL ANALYSIS AND FINDINGS

The empirical analysis of this study aims to test the existing internationalization process theories and attempts to find out whether the internationalization process in developing countries follows similar patterns as the developed countries. Hence, it aims to identify the role of import and other inward co-operative modes' contribution and link to outward internationalization of SMEs. The patterns of internationalization process will also be investigated. The importance of network and the role of manager/owner in the internationalization process will be analyzed. Finally, the main triggering factors for SMEs to internationalize their operations will also be analyzed.

4.1. Descriptive statistics on firms and the target population

In 2006, the participating companies have on average 764 employees. The mean total turnover for 2006 was about EUR 1.856.577, 74. The average share of exports in 2006 was 50 percent. The average number of foreign markets that the respondent companies exported within the beginning five years of their establishment was two countries. In terms of the number of employees in the beginning years of establishment (within five years from establishment), 50 percent of the companies had less than 200 employees with 50 – 99 and 100 – 199 employees being the most common among the respondent companies. On the other hand, more than 50 percent of the employees had less than 500 employees in 2006. Similarly, 11 companies (61%) of the companies had 200 and above 200 employees. It seems that on the average the number of employees for the respondent companies has been growing. In addition, the number of companies which used to have more than 500 employees has grown from the beginning years of their establishment, until 2006 from five companies to eight companies. The data about number of employees is presented in Table 5. The data shows that respondent companies have been growing in terms of the number of employees they have employed. However, these data by itself may not indicate the overall business growth as

other factors need to be taken into account such as the increase in total revenue, increase in international activity and related others. However, it could give some picture concerning the description of Ethiopian apparel SMEs.

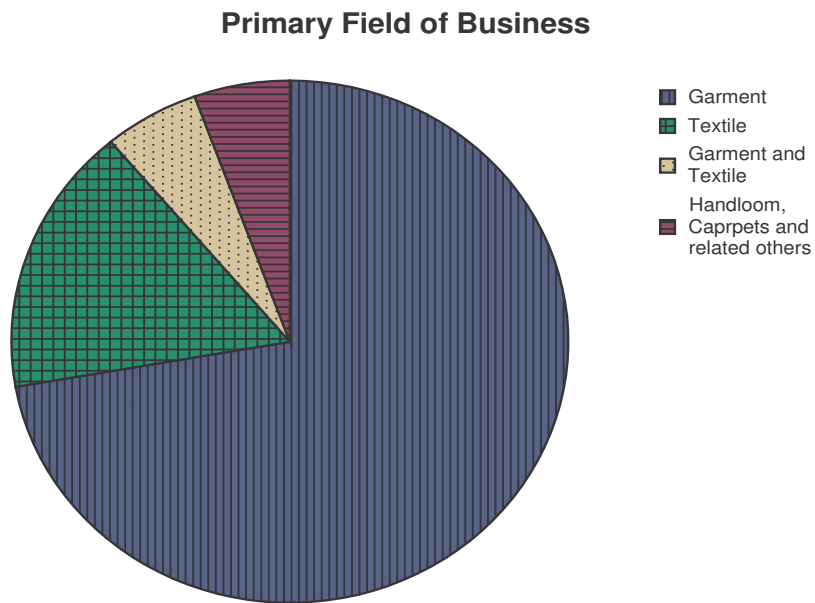
Table 5. Number of employees within 5 years of establishment and in year 2006.

| Item | In the beginning years (within 5 years of establishment) N = 18 | | In year 2006 N = 18 | |
|----------------|---|------------|------------------------|------------|
| | Frequency | % | Frequency | % |
| 5 – 49 | 3 | 16,7 | 1 | 5,6 |
| 50 - 99 | 4 | 22,2 | 1 | 5,6 |
| 100 - 199 | 2 | 11,1 | 5 | 27,8 |
| 200 - 499 | 4 | 22,2 | 3 | 16,7 |
| 500 - 999 | 0 | 0 | 2 | 11,1 |
| 1.000 - 1.499 | 3 | 16,7 | 2 | 11,1 |
| 1.500 - 1.999 | 1 | 5,6 | 2 | 11,1 |
| 2,000 - 2.499 | 1 | 5,6 | 1 | 5,6 |
| 2.500 - 2.999 | 0 | 0 | 0 | 0 |
| 3000 - 3.4999 | 0 | 0 | 1 | 5,6 |
| Total | 18 | 100 | 18 | 100 |
| Missing | 0 | 0 | 0 | 0 |

The annual turnover of all these companies is less than USD 15 million. More than half of the companies have annual turnover less than USD 1 million as shown in Table 6. Even though, the number of employees seems to be large because of the low labor cost of Ethiopia, which is also the case for other developing countries, the annual turnover together with the number of employees is a better indicator of the size of companies. As it can be seen in Table 6, five companies have annual turnover between USD 20.000 – 49.000 and 12 (66,6 percent) of the companies have annual turnover more than USD 50.000. Around nine companies (50 percent) have annual turnover of USD 500.000 and over USD 500.000. Hence, it seems that the industry is comprised of small and medium sized companies not only in terms of annual revenue but also in terms of the number of employees.

Table 6. Annual revenue in year 2006.

| Total Revenue in 2006 (USD) | Frequency | Percent |
|-----------------------------|-----------|---------------|
| 20.000 – 49.000 | 5 | 27,8 |
| 50.000 – 99.999 | 2 | 11,1 |
| 100.000 – 499.000 | 1 | 5,6 |
| 500.000 – 999.999 | 3 | 16,7 |
| 1.000.000 – 2.499.999 | 1 | 5,6 |
| 2.500.000 – 4.999.999 | 1 | 5,6 |
| 5.000.000 – 9.999.999 | 3 | 16,7 |
| 10.000.000 – 14.999.999 | 1 | 5,6 |
| Missing | 1 | 5,6 |
| Total | 18 | 100,00 |

**Figure 10.** Primary field of business of apparel SMEs.

In Figure 10, the primary field of business for the apparel SMEs was garment business, representing 70 percent of the respondents (out of 17 companies). Secondly, the textile field of business represented 17,6 percent. Thirdly, garment and textile represented 5,6 percent. Similarly, handloom, carpets and related others represented 5,6 percent. These results show that the industry is highly concentrated towards garment production.

4.2. Different forms of internationalization

The SMEs are involved in different forms of internationalization. The inward internationalization consists of import of raw materials and machinery from abroad to the domestic market. The outward international activities include indirect exporting, direct exporting. In terms of the linked internationalization, it was found out that respondent companies are involved also in subcontracting from domestic/international companies. Hence, in this section, the inward and outward internationalization will be covered. In addition, other forms of internationalization such as subcontracting will also be discussed.

4.2.1. Inward and outward internationalization

The operation mode, which is commonly used in the most important foreign markets, was export operation mode with nine companies indicating that they used export mode. Secondly, import/reseller (distributor) was also selected by the by five companies. Thirdly, subcontracting to domestic or foreign company seems to be another operation mode used by four of the respondent companies. Similarly, four respondents also indicated the use of foreign agent. *It seems that most of the companies did not only use single operation mode but rather multiple operation modes in their first important foreign market.* The operation mode in international activities in the first important foreign market is presented in Table 7.

Table 7. Operation mode in international activities in the first important foreign market.

| Operation mode | First Country |
|---|----------------------|
| Export of goods/services | 9 |
| Licensing | 1 |
| Subcontracting to domestic or foreign company | 4 |
| Importer/ reseller (distributor) | 5 |
| Foreign Agent | 4 |
| Domestic Agent | 1 |
| Joint Venture | 1 |

These results support other studies conducted in the Nordic countries such as Finland that SMEs usually engage in operation modes with low cost (investment). Hence, at this stage, the commitment to the foreign markets can be considered to be low, as high investment indicates high commitment and low investment indicates low commitment. When companies use the direct export mode, it is expected that they would gain market knowledge relative to indirect exporting and also importing. In terms of importing, their market knowledge could be regarded to be low. However, when viewed from the inward internationalization perspective, the relationship and even a small amount of foreign market knowledge gained through this endeavor can be expected to contribute to prompting firms to increase their level of involvement and commitment to foreign markets. As companies gain more foreign market knowledge, those who are at the stage of importing or exporting could start to increase their level of involvement and commitment to foreign markets.

Table 8. Number of import countries (beginning 5 years).

| Number of countries | Companies |
|----------------------------|------------------|
| 1 | 5 |
| 2-4 | 10 |
| 5-9 | 2 |
| No Response | 1 |
| Total | 18 |

In Table 8, the most frequent number of import countries that the responding companies had during the first five years of company's establishment seems to be between 2-4

import countries. The data shows that out of the 17 responding companies, there seems to be no company that has not imported some raw material, chemicals or other related needed materials (which is covered in the imported products section) from other countries. This seems to show the importance of import in the early stages of company's international activities. In Table 9, the most frequent number of export countries that the responding companies had during the first five years of company's establishment seems to be one export country. From the respondent companies, 50 percent had exported to one country. Similarly 50 percent had exported between two to nine (2-4 and 5-9) countries. Hence, it seems that during the first five years of the company's establishment, the respondent companies were exporting to a few countries.

Table 9. Number of export countries (beginning 5 years).

| Number of countries | Companies |
|----------------------------|------------------|
| 1 | 9 |
| 2-4 | 6 |
| 5-9 | 2 |
| No Response | 1 |
| Total | 18 |

This finding supports other findings concerning stage internationalization processes, that SMEs export to few countries first and later to increasing number of countries. From the respondent companies, 11 companies (61 percent) were established from 1990 onwards. Out of these 11 companies, seven companies (39 percent) were established between 2000 – 2006. Only four companies (22 percent) were established from 1960 – 1989.

This data seems to indicate that more than half of the companies are relatively young companies established within the last 10 years. In terms of the establishment year and the year import began, 11 companies (61 percent) had the same year for their establishment year and import year.

These data seem to suggest the crucial role inward activities play on starting basic production processes for these SMEs. In terms of export, only two companies (11

percent) began their export activities between 1976 - 1985. Four companies (22 percent) began their export activities between 1990 - 1999.

Table 10. The year company's, import and the export began and the first import and export countries.

| No. | Establishment Year | Import Country | Import Began | Export Country | Export Began |
|------------------------|---------------------------|-----------------------|---------------------|-----------------------|---------------------|
| 1 | 1999 | Taiwan | 1999 | USA | 1999 |
| 2 | 1989 | Italy | 1989 | Italy | 1991 |
| 3 | 1961 | Italy | 1961 | Italy | 1976 |
| 4 | 1963 | USA | 1963 | USA | 2000 |
| 5* | 1960 | Italy | 1961 | Italy | 1985 |
| 6 | 1992 | China | 1992 | China | 1992 |
| 7 | 1997 | Korea | 1997 | Belgium | 1999 |
| 8 | 2001 | China | 2004 | USA | 2004 |
| 9 | 2004 | Turkey | N/A | USA | 2004 |
| 10 | 2006 | Mauritius | 2006 | USA | 2006 |
| 11 | 2005 | India | 2005 | USA | 2006 |
| 12 | 2006 | USA | 2006 | USA | 2006 |
| 13* | 2003 | USA | 2003 | USA | 2003 |
| 14 | 2003 | USA | 2004 | USA | 2003 |
| 15 | 2004 | UAE | 2005 | USA | 2006 |
| 16 | 1996 | China | 1996 | Netherlands | 2006 |
| Missing | | | | | 1 |
| Other Reasons** | | | | | 1 |
| Total | | | | | 18 |

*Indicates that for these companies the connection between import and export is between the first three import countries and the first three export countries.

**Other reasons: indicates that the company does not import directly but imports indirectly.

Finally, 10 companies (56 percent) began their export activities between 2000 – 2006. This data shows that the outward internationalization process is still in the early phase as half of the companies have started to export from 2000-2006.

Table 11. First import country.

| | | No of companies |
|---|-------|-----------------|
| 1 | USA | 4 |
| 2 | Italy | 2 |
| 3 | China | 2 |

In Table 11, the most frequent import country for the respondent companies was USA. The other two countries namely Italy and China also were second frequent import country for SMEs. For the rest of the first import countries, there was only one respondent company per each import country.

Table 12. First export country (beginning 5 years from establishment).

| | | No. of Companies |
|---|-------|------------------|
| 1 | USA | 9 |
| 2 | Italy | 2 |
| 3 | China | 1 |

In Table 12, the first export country for nine companies was USA, for two companies the first export country was Italy and for one company the first export country was China. This shows that the most popular export destination happens to be USA in the first five years of company's establishment.

Table 13. Export country now.

| | | No. of Companies |
|---|-------------|------------------|
| 1 | USA | 13 |
| 2 | Switzerland | 2 |
| 3 | Belgium | 1 |
| 4 | Netherlands | 1 |

In Table 13, the first export country in 2006 is still USA with 13 respondent companies claiming that USA is their first important export destination. Hence, USA's popularity as export destination among Ethiopian apparel SMEs can be clearly seen also from table 12 and Table 13. On the other hand, Switzerland (two companies), Belgium (one company), Netherlands (one company) seem to gain new importance for apparel SMEs.

The former first export countries such as Italy and China in Table 12, seem to lose some level of importance among Ethiopian Apparel SMEs.

Product pattern: All the respondent companies have imported raw materials and different components necessary for their production processes. There was no company, which has not imported raw materials or some machinery needed for the production of apparel. In addition, the majority of the companies seemed to continue to import raw materials (dye stuff, fabric, accessories) and machinery. Hence, import products have remained constant over the years.

4.2.2. Other forms of internationalization

There are four companies (22 percent) who have used subcontracting to a domestic or foreign company in the three most important foreign markets besides using export and import operation modes in these markets. Even though, this form of internationalization does not seem to be conducted by the majority of the firms. Similarly, the use of import agent was chosen by four companies (22 percent). However, it seems that the use of both subcontracting and import agents has gained some level of importance and many firms may in the future start to use one of these operation mode.

4.2.3. Connection between the first import and the first export countries

In Table 10, for eight of the companies (53%), there appears to be a connection between their import and export countries, that is if we take into account the *first three* import countries and the first three export countries. If we only take the *first export and import* countries into account, six companies (40%) have the same country as their first import and their export countries. Similarly for five companies including those inward and outward activities are connected and also others, their year of establishment, the year

they began their import activities and also the year they began their export activities are the same year. This indicates that these five companies have started their international activities from inception both inward and outward activities, which may suggest their *international orientation from inception*.

Consequently, even though one can not make an assertion that the inward activities of apparel SMEs have directly influenced their choice of target country; the data seems to suggest that the inward and outward activities have influenced in both directions for USA, Italy, and China. In terms of USA, the African Growth Opportunity Act (AGOA), which allows African companies to export to USA duty and quota free, could explain the choice of US as a popular destination for apparel SMEs. In terms of China, the phenomenal growth of the Chinese economy and the ensuing involvement of the Chinese companies in sourcing raw materials from Africa and at the same time becoming the export destination for some of the apparel SMEs can explain these findings. In addition, all the three countries are listed as the main export/import partners for Ethiopia (the country) and hence are destinations for Ethiopian products

Hence, the data shows that most of the customers for the SMEs are private customers. In the foreign market, 11 companies (61 percent) had 1-4 customers. Hence, the result seems to suggest that the majority of those who have responded had 1-4 customers, which are from the private sector (12 companies). The data is presented in Table 14. In the home market, five companies have 1-4 customers. Secondly, it seems that some of the companies (two companies) have 5-10 customers and also 50-100 customers in the home market. Only one company has 11-20 customers and also only one company has 21 -49 customers in the home market. There are companies that have both private and public sector customers. Five companies have public sector customers and eight companies have private sector customers.

Hence, the data shows that most of the customers for the SMEs are private customers. In the foreign market, 11 companies (61 percent) had 1-4 customers. Hence, the result seems to suggest that the majority of those who responded had 1-4 customers, which are from the private sector (12 companies).

Table 14. Number of buyers in the domestic market, foreign market and most the important country.

| Operation mode | In the home market | In the foreign markets | In the most important country |
|-------------------|--------------------|------------------------|-------------------------------|
| a) 1- 4 | 5 | 11 | 15 |
| b) 5-10 | 2 | 4 | |
| c) 11-20 | 1 | 2 | |
| d) 21-49 | 1 | | |
| e) 50-100 | 2 | | |
| f) > 100 | | | |
| g) public sector | 5 | 1 | |
| h) private sector | 8 | 12 | 12 |
| i) other which | | | |

In terms of the most important country, 15 companies have 1-4 customers in the most important country and from those who responded, their customers come from only the private sector (12 companies).

4.2.4. Proposition testing

The empirical objective of the present study was to test the propositions developed in the theoretical part namely to identify the role of import and other inward co-operative modes contribution and link to outward (export and other operation modes) internationalization of apparel SMEs (empirical objective 1). Hence, the proposition 2, which is listed on, was developed. As indicated in the section under connection of inward and outward activities in Table 2, it seems that the majority of the companies in developing countries undertake different forms of internationalization that is inward, outward at the same time. Some companies undertake inward, outward, and linked internationalization at the same time. Hence, proposition 2 supported by this study in terms of the influence of inward on outward and outward on inward internationalization. However, there is only small level of support for the linked (foreign strategic alliances, cooperative manufacturing, and counter-trade) internationalization.

4.3. Internationalization path of SMEs

4.3.1. Stage approach

The previous section dealt with the different forms of internationalization, the operation modes used, target markets chosen, and product patterns. The data from previous section shows that in terms of the first export country, all respondent companies began their outward internationalization by exporting to countries outside of Africa such as USA, Italy and China. In 2006, the first export countries (in terms of importance) were USA, Switzerland, Belgium and Netherlands. In terms of the operation mode, they have used export mode (which is a low commitment mode). These countries are not neighboring countries, the result appears to support previous studies in terms of the business distance between the domestic and target country.

Business distance is measured by physical distance (geographical distance), cultural distance (language, educational level, and economic development level) and also economic distance that is measure by GNP and size of the population (Luostarinen 1989: 136-137).

Geographic distance between domestic and target market is great. In regards to *cultural distance*, Ethiopia's second official *language* is English. In terms of *educational level*, the respondents have indicated that it may not have a very strong effect. Educational differences variable Q14d (mean 3,44) with 17 percent strongly agreeing and 39 percent strongly disagreeing that this variable has disturbed or prevented the flow of information between the company and the foreign market. Hence, there seems to be less agreement that the difference/similarity in the level of education has a big influence in impeding/facilitating foreign market entry and commitment to the market.

In terms of *economic distance*, there is a huge difference between Ethiopia, USA and the other export countries. In terms of differences/similarities in *economic development* Q14e was measured by difference/similarity in industrial development (mean 1,47). From the respondent companies, 61 percent strongly agreed that industrial development

difference/ similarity has a big influence in impeding/facilitating foreign market entry and commitment. For instance, Ethiopian Gross National Income is USD 1000, USA's has GNI of 43,740, and Switzerland has GNI of 54,930 to name some of the first export countries. Hence, the economic distance is great between Ethiopia and these export countries. Consequently, the knowledge of foreign markets of the respondents and how strongly they perceive that it poses a challenge was investigated. In terms of knowledge concerning foreign markets, it was measured using Q13b-f. Lack of appropriate knowledge concerning knowledge about foreign markets variable has 33 percent strong agreement from respondents and about 11 percent strongly disagreed that it poses a challenge in foreign market entry and commitment.

Consequently, from business distance, physical distance is not supported by the findings. However, in terms of cultural distance, from the three variables, only the economic development variable was found to create a barrier in terms of the flow of knowledge from domestic to target market. However, according to respondents, *language and education level* are not expected to create barriers to the flow of knowledge from domestic market to target market. Even though, it is surprising to find out that respondents do not perceive cultural differences to impede information flow, however, the cultural distance from cross-cultural communication literature suggests that there is a tremendous difference between Ethiopia and the main international markets such as USA, Switzerland and others. (see Hofstede 1984). Similarly, in terms of the economic distance, Luostarinen (1989: 136-137) suggests that the greater the difference in the economic environment in favor of the target market, the greater the positive economic distance. Also, the greater the difference in economic environment in favor of the domestic market, the greater the negative economic distance. Hence, as was already mentioned in the beginning part of this section, the GNI difference between Ethiopia and the target market is in favor of the target markets and hence the *positive economic distance*.

To sum up this section, from the stage model, this study supports other studies that companies in the beginning use less commitment operation modes NIMOS (Non Investment Marketing Operations) such as export in the starting stage. In terms of target

market patterns, which are measured by business distance, the respondents perceive that it does not have any meaningful impact. However, the question may have to be modified so as to include other variables for culture besides economic development, language and education in the future. The data does not support the assumption that companies internationalize to their physically close countries during the starting stage. As Nordström (1991 cited in Vahlne & Nordström 1993) suggests there is a need for the inclusion of a number of other variables such as industry, home and host country characteristics. For instance a case in point would be the impact of AGOA (African Growth Opportunity Act) on Apparel SMEs, which could explain their internationalization path together with other external, internal and network factors. Hence, in the next section the network approach (business network) and mainly the relationship context would be investigated.

4.3.2. Internationalization and the network approach

According to Johanson and Mattson (1988), companies may not necessarily need experiential knowledge per se as long as their counterparts have foreign market knowledge. Hence, companies can skip some stages and start with high commitment mode. Even though, the apparel SMEs have not yet used high commitment modes, their important export destinations appear to be in physically distant countries. The relationship with foreign partners and the importance they place on relationship was measured by Q18q, 16c and Q11.

In Table 15, the list of variables used to measure their relationship with counterparts both foreign and domestic and also importance placed on relationship itself, is provided.

In terms of relationship to export channels/middlemen, some of the respondents perceive it to be an important factor in international business (mean 3,22). About 21 percent of the respondents strongly agreed equally about 21 percent strongly disagreed. A relation to export channels/middlemen is presented in Table 16.

In terms of building long-term relationships, the majority of the respondents perceive building long-term relationships as an important factor to conduct international business

(mean 1,50). 66 percent of the respondents strongly agreed where as 5,6 percent strongly disagreed. Building long term relationships is presented in Table 17.

In Table 18, In terms of the level of relationship between the respondent companies and their foreign supplier, more than half of the respondents commented that it was their foreign supplier, which provided their company with contacts (mean 2,67). 40 percent of the respondents strongly agreed whereas about 33 percent strongly disagreed.

Table 15. Relationship and first business inquiry

| Relationship and Internationalization | | | | | | |
|---|----|------|------|------|----------------|----------|
| | N | Min. | Max. | Mean | Std. Deviation | Skewness |
| Relations to export channels/middlemen in the foreign sales | 14 | 1 | 5 | 3,21 | 1,477 | -,428 |
| Building long-term relationships are important in interntional business | 18 | 1 | 4 | 1,50 | ,857 | 1,889 |
| Foreign supplier provided the company with contacts | 15 | 1 | 5 | 2,67 | 1,799 | ,493 |
| Freight provider provided us with business contacts | 14 | 1 | 5 | 3,43 | 1,910 | -,413 |
| Import agent helped us to get the first export inquiry | 15 | 1 | 5 | 2,93 | 1,944 | ,040 |
| Domestic agent helped us to get the first export inquiry | 16 | 1 | 5 | 2,13 | 1,628 | ,937 |
| Foreign agent provided us with contacts | 15 | 1 | 5 | 3,60 | 1,639 | -,485 |

Table 16. Relations to export channels/middlemen.

| Relations to Export Channels/Middlemen in the Foreign Sales | | | |
|---|-------------------|-----------|---------------|
| | | Frequency | Valid Percent |
| Valid | Strongly agree | 3 | 21,4 |
| | 2 | 1 | 7,1 |
| | 3 | 3 | 21,4 |
| | 4 | 4 | 28,6 |
| | Strongly disagree | 3 | 21,4 |
| | Total | 14 | 100,0 |
| Missing | No Response | 4 | |
| Total | | 18 | |

Table 17. Building long-term relationships.

Building Long-Term Relationships are Important in Interntional Business

| | | Frequency | Valid Percent |
|-------|----------------|-----------|---------------|
| Valid | Strongly agree | 12 | 66,7 |
| | 2 | 4 | 22,2 |
| | 3 | 1 | 5,6 |
| | 4 | 1 | 5,6 |
| | Total | 18 | 100,0 |

In terms of the level of their relationship with their freight provider (mean 3,43), more than half of the respondents disagree that this variable has any contribution in providing business contact. About 29 percent of the respondents strongly agreed with the statement that their freight provider provided them with business contacts. Also, 57 percent strongly disagreed. The response for our freight provider provided us with business a contacts variable is presented in Table 19.

Table 18. Foreign supplier provided contacts.

Foreign Supplier Provided the Company with Contacts

| | | Frequency | Valid Percent |
|---------|-------------------|-----------|---------------|
| Valid | Strongly agree | 6 | 40,0 |
| | 2 | 3 | 20,0 |
| | 3 | 1 | 6,7 |
| | Strongly disagree | 5 | 33,3 |
| | Total | 15 | 100,0 |
| Missing | No Response | 3 | |
| Total | | 18 | |

Table 19. Freight provider provided us with contacts.

Freight Provider Provided Us with Business Contacts

| | | Frequency | Valid Percent |
|---------|-------------------|-----------|---------------|
| Valid | Strongly agree | 4 | 28,6 |
| | 2 | 2 | 14,3 |
| | Strongly disagree | 8 | 57,1 |
| | Total | 14 | 100,0 |
| Missing | No Response | 4 | |
| Total | | 18 | |

In terms of the level of their relationship with their import agent (mean 2,93), less than half of the respondents agreed that this variable has a contribution in receiving their first export inquiry. About 47 percent of the respondents strongly agreed with the statement that their import agent helped them in receiving their first export inquiry whereas 40 percent strongly disagreed. Import agent helped us get the first export inquiry is presented in Table 20.

In Table 21, in terms of the level of relationship between respondent companies and their domestic agent (mean 2,18), more that half of the respondents agreed that this variable has contributed in their getting their first inquiry. About 63 percent of the respondents strongly agreed with the statement their domestic agent helped them to get their first export inquiry whereas only 12,5 percent strongly disagreed.

Table 20. Import agent and first export inquiry.

| Import Agent helped Us to Get the First Export Inquiry | | | |
|---|-------------------|-----------|---------------|
| | | Frequency | Valid Percent |
| Valid | Strongly agree | 7 | 46,7 |
| | 3 | 1 | 6,7 |
| | 4 | 1 | 6,7 |
| | Strongly disagree | 6 | 40,0 |
| | Total | 15 | 100,0 |
| Missing | No Response | 3 | |
| Total | | 18 | |

In terms of the level of relationship with foreign agent (mean 3,60), more than half of the respondents disagree that this variable has any contribution in providing business contacts. About 13,3 percent of the respondents strongly agreed with the statement that their foreign agent provided them with business contacts where as about 53 percent strongly disagreed. Foreign agent provided us with contacts is presented in Table 22.

In conclusion, the majority of the respondents seem to agree on the need to build long-term relationship. In addition, in terms of how they have been building their international business, it seems that foreign suppliers, import agents, and domestic agents have contributed to their getting their first export inquiry or business contacts in general. This seems to show the web of relationships that the companies utilize to build their international businesses. In terms of company's timing of internationalization in relation to their counterparts, it was measured by adopting internationalization and network model Q9 (Johanson & Mattson 1988: 298).

This seems to show the web of relationships that the companies utilize to build their international businesses. In terms of company's timing of internationalization in relation to their counterparts, it was measured by adopting internationalization and network model Q9 (Johanson & Mattson 1988: 298). The result seems to indicate that there are more companies who can be categorized as early starters.

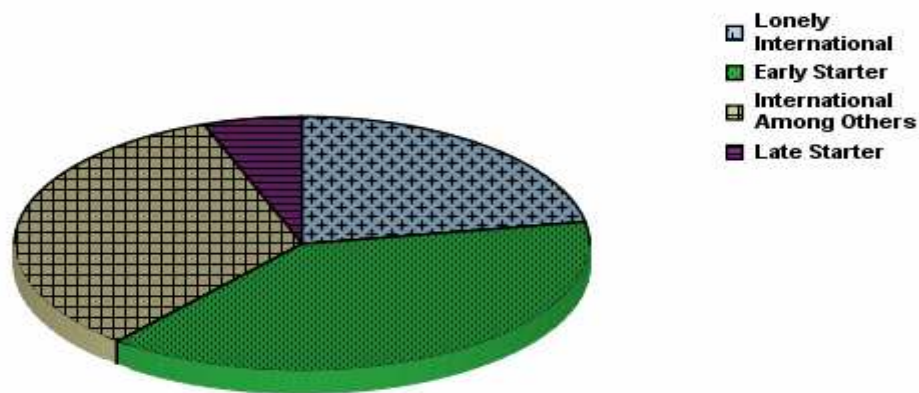
Table 21. Domestic agent and first export inquiry.

| Domestic Agent Helped Us to Get the First Export Inquiry | | Frequency | Valid Percent |
|---|-------------------|------------------|----------------------|
| Valid | Strongly agree | 10 | 62,5 |
| | 2 | 1 | 6,3 |
| | 4 | 3 | 18,8 |
| | Strongly disagree | 2 | 12,5 |
| | Total | 16 | 100,0 |
| Missing | No Response | 2 | |
| Total | | 18 | |

Table 22. Foreign agent and contacts.

| Foreign Agent Provided Us with Contacts | | Frequency | Valid Percent |
|---|-------------------|-----------|---------------|
| Valid | Strongly agree | 2 | 13,3 |
| | 2 | 3 | 20,0 |
| | 3 | 2 | 13,3 |
| | Strongly disagree | 8 | 53,3 |
| | Total | 15 | 100,0 |
| Missing | No Response | 3 | |
| Total | | 18 | |

Internationalisation and the Network model

**Figure 11.** Internationalization and the network model.

As described earlier, and the proportion can also be seen Figure 11, the majority of the companies are either early starter (38 percent) or International among others (33,3 percent). The lonely internationals are 22,2 percent. There was one company (5,6 percent), which was a late starter. Consequently, the first category the respondent companies belong to is the early starter category. The second category the respondent companies belong to is the international among others. The third category is lonely international and the fourth category is late starter category.

Formal relationships with business partners have played a tremendous role as one variable used to measure the role of both formal and informal (social) relationships. In

addition, co-operation with other partners in business allowed us to offer a broader range of products was another variable used to measure both formal and informal relationships. Furthermore, our social contacts in foreign market have helped us in gaining important business information were used to measure the role of formal and informal (social) relationships on internationalization of the companies on the likert scale of 1 -5 (1 indicating strongly agree and 5 indicating strongly disagreement). Relationship and internationalization is presented in Table 23.

Table 23. Relationship and internationalization.

| | N | Max. | Min. | Mean | Std. Deviation | Skewness |
|---|----------|-------------|-------------|-------------|-----------------------|-----------------|
| Formal relationships with business partners have played a tremendous role | 18 | 3 | 1 | 1,39 | ,698 | 1,613 |
| Co-operation with other partners in business allowed us to offer a broader range of products | 18 | 5 | 1 | 2,39 | 1,378 | ,715 |
| Our social contacts in foreign markets have helped us in gaining important business information | 18 | 5 | 1 | 2,33 | 1,237 | ,536 |

It seems that there is strong agreement from almost most of the respondents (72,2 percent) that formal relationships with business partner have played a tremendous role (mean 1,35). In terms of co-operation with other partner in business allowed us to offer a broader range of products variable (mean 2,39), and 6 respondents (33 percent) companies strongly agree where as 2 respondent companies strongly disagreed (11 percent). There is also a level of agreement that their social contacts in foreign markets have helped them in gaining important business information (mean 2,41), and 6 respondent companies (33 percent) strongly agree and 1 company (5,6 percent) strongly disagrees concerning the impact of this variable on internationalization process. These finding seems to suggest that both formal and social networks and relationships seem to play a role in the internationalization of the companies.

4.3.3. Proposition testing

The empirical objective of the present study was to test the propositions developed in the theoretical part namely to find out the internationalization path that SMEs have taken. Consequently, this study aimed to analyze the impact of foreign market knowledge gained from foreign markets, through relationships with counterparts in business network, on the internationalization of SMEs. Hence, the proposition 1, which is listed on Table 3, was developed. As indicated in the section dealing with the empirical part of the stage models, the study supports other studies that companies in the beginning use NIMOS such as export modes in the starting stage. However, when business distance was tested, physical distance was found to be great. The data does not support the assumption that companies internationalize to their physically close countries during the starting stage. In addition, the assumption that companies export first to other countries with similar economic development (cultural distance) was not supported. On the other hand, from cultural distance, the other two variables that is language and education level were found to be similar. However, the cultural distance still remains to be great. In addition, the third business distance namely the economic distance was found to be positive. Hence, this study supports other findings that companies internationalize first with less commitment operation mode. Hence, the proposition that stage models explain the internationalization process of SMEs from developing countries is weak.

In terms of relationship that SMEs have with their counterparts, the proposition was tested by using Q11, Q16c, Q18q. The finding of this study supports other studies that building long term relationship is perceived to be important by SMEs. In regards to what is considered to be needed to be successful in international business, the finding of this study also supports other studies that foreign suppliers, import agents, and domestic agents are important in the internationalization of SMEs. This seems to suggest that the web of relationships that the companies utilize to build their international businesses has contributed to their internationalization process. However, the contribution of import agent, foreign agent and freight providers seems to be less important in the internationalization process of SMEs in terms of gaining foreign market knowledge.

Hence, the proposition that the network view explains the internationalization of SMEs is strong.

4.4. The role of management in internationalization

The role of management in internationalization was investigated by taking into account management's international experience, management characters and also their contribution to the internationalization of SMEs.

4.4.1. Management international orientation

In terms of management's international experience, the study investigated management's international experience (Q15) by using the variables in Table 24. In order to measure their international experience, respondents were asked how many of the management personnel have lived and studied abroad. In addition, they were also asked how many of the management's personnel have worked in a foreign company in international assignment and also how many of them have worked in a foreign company in international assignment.

Table 24. Management's international experience.

| | No One | One of management personnel | Several of the Management personnel |
|---|--------|-----------------------------|-------------------------------------|
| a) has lived abroad | 8 | 3 | 3 |
| b) has studied abroad | 2 | 8 | 3 |
| c) has worked in another Ethiopian company in international assignments | 4 | 4 | 5 |
| d) has worked in a foreign company in international assignments | 7 | 3 | 3 |
| e) other experience, what: | | | |

From 14 respondents, 8 companies (44 percent) have no one from management personnel who has lived abroad, whereas 6 companies (33 percent) have one or several management personnel who have lived abroad. From 13 respondents, only 2 companies (11 percent) have no one from management personnel who has studied abroad. On the other hand, 11 companies (61 percent) have one or several management personnel who has/have studied abroad. In terms of working for another Ethiopian company in international assignment, 4 companies (22 percent) have no one who has worked for Ethiopian company in international assignment.

In contrast, 9 companies (50 percent) have one or several of the management personnel who has/have worked for Ethiopian Company in international assignment. Out of 13 respondents, 7 companies (39 percent) have no one who has worked in a foreign company in international assignment. However, 6 companies (39 percent) have one or several management personnel who have worked in a foreign company in international assignments. Hence, it seems that Ethiopian apparel SMEs have some level of international experience in terms of studying abroad and also working for another Ethiopian company in international assignments. Since most of them have not lived abroad or worked abroad in a foreign company, the level of knowledge in terms of how foreign markets operate can be expected to be low. However, this factor and also other related factors are considered in the environmental factors impacting internationalization of the SMEs section of this study.

4.4.2. Management characteristics

In Table 25, in terms of management characteristics, the study used the following variables: owner/manager looked for export possibilities Q11f, key management is highly involved in developing international strategy Q16e. In addition, it also used the following variables: international transaction experience is needed Q16b, long-term relationships are needed Q16c, the importance of conducting international marketing research Q16d. In addition, management's international orientation variables such as management international experience Q18r, management level of education Q18s, management commitment to international business Q18t, management language skills

Q18u were used. These variables were used in order to measure management's international orientation and their positive role in contributing to the internationalization process of SMEs. The likert scale (1 – 5) was used 1 indicating strongly agreement and 5 indicating strongly disagreement. In terms of international orientation, international transaction experience is needed variable (mean 1,17) is perceived to be needed for SMEs to be successful in international business. In addition, management language skills variable (mean 1,40) is perceived to be important in order to be competitive (operational level). In terms of the role of management in internationalization process, key management is highly involved in developing international strategy variable (mean 1,33) is perceived to be important for companies to expand their business operations overseas. Management international experience (mean 2.47) had the lowest score from the respondent companies but still the mean suggests that on the average there is some level of agreement that is needed. All the rest of the variables had received agreement from the respondent companies with a mean less than 2. Hence, the result seems to suggest that owner/managers seem to believe that international orientation of management and some specific above mentioned characteristics of management/owner play an important role in the internationalization process of apparel SMEs.

Table 25. Management characteristics.

| | N | Min. | Max. | Mean | Std. Deviation | Skewness |
|--|----------|-------------|-------------|-------------|-----------------------|-----------------|
| Owner/Manager looked for export possibilities | 17 | 1 | 5 | 1,71 | 1,572 | 1,866 |
| Key management is highly involved in developing international strategy | 18 | 1 | 3 | 1,33 | ,594 | 1,683 |
| Management international experience | 15 | 1 | 5 | 2,47 | 1,246 | ,982 |
| Management level of education | 15 | 1 | 3 | 1,60 | ,737 | ,841 |
| Management commitment to international business | 15 | 1 | 5 | 1,73 | 1,223 | 1,669 |
| Management language skills | 15 | 1 | 3 | 1,40 | ,632 | 1,407 |
| International transaction experience is needed to be successful in IB | 18 | 1 | 3 | 1,17 | ,514 | 3,239 |
| Building long-term relationships are important in international business | 18 | 1 | 4 | 1,50 | ,857 | 1,889 |
| It is important to conduct international market research before entering a target foreign market | 18 | 1 | 3 | 1,44 | ,784 | 1,442 |

In terms of management's interest in internationalization, 7 companies (38,9%) strongly agree that management's interest in internationalization has impacted their company's decision to start operating internationally. On the other hand 6 companies (33,3%) strongly disagree that it has impacted their company's decision to start operating internationally perhaps because other factors are believed to impact more than this particular variable. In general, as can be seen in , there is an agreement that it has impacted these companies positively in terms of their motivation to internationalize.

Management's international experience was measured as one of the proactive export motivation variables. 6 companies (33,3 percent) strongly agreed concerning its impact on their decision to internationalize their operations. On the other hand only 3 companies (16,7%) strongly disagreed that this variable has impacted the company's decision to internationalize. Concerning the need for management's international experience, Figure 13 shows the responses from the respondents.

Figure 12. Management's interest in internationalization.

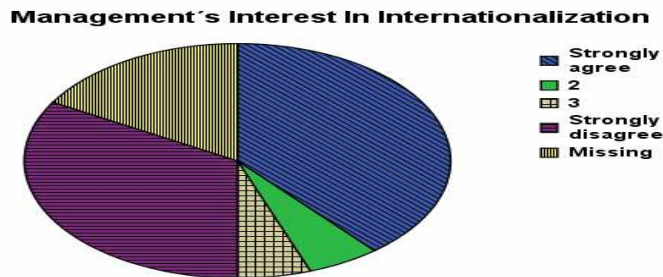


Figure 13. The need for management's international experience.

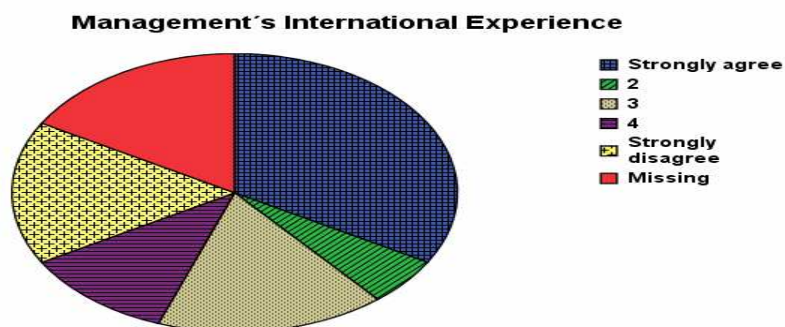
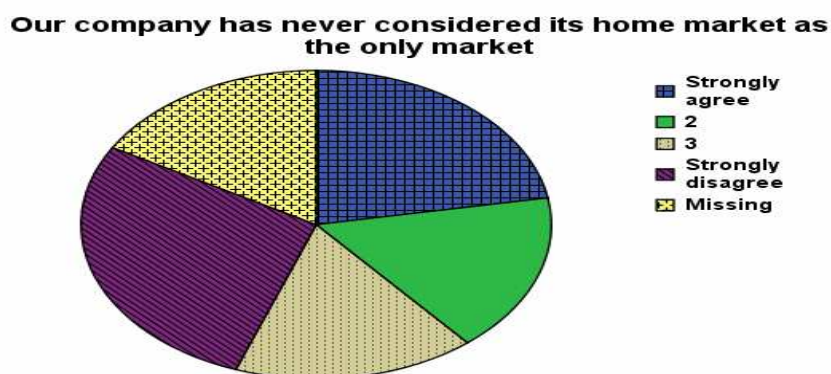


Figure 14. Home market not the only market.



in terms of not considering the domestic market as the only market, as mentioned earlier in the beginning part of the proactive motivation section and as also can be seen in Figure 14. It seems that the result is mixed. 4 companies (22,2%) strongly agree whereas 5 (27,8) strongly disagree.

4.4.3. Proposition testing

The empirical objective of the present study was to test the propositions developed in the theoretical part namely to find out role of managers/owners. Specifically to find out whether a manager's/owner's international orientation has a positive impact on the internationalization process of SMEs. Hence, the proposition 3, which is listed in Table

3, was developed. This Proposition was tested by using management characteristics measures (11f, 16 b-e, 18r-u) and international orientation of management measures (Q15). The finding of this study supports other studies that management's international orientation influences the internationalization process of SMEs. In addition, this study also support other studies that claim that managers/owners contribute positively to the internationalization process of SME.

4.5. Motivation to internationalize

In order to test the motivations for internationalization, it was important to consider both reactive and proactive export motivations that companies have considered in their decision to internationalize their operations. The reactive export motivations are listed in Table 26. The proactive export motivations are listed in Table 27.

4.5.1. Reactive export motivations

The main reactive export motivations were export subsidies for international operations (mean 1,80), internationalization of the customer (1,87) and internationalization of competitors (1,87) were perceived to have impacted the company's decision to start operating internationally. Likert scale 1-5 was used whereby 1 indicating strong agreement and 5 indicating strong disagreement.

On the contrary, lack of subcontractors in the home market seems to show some level of disagreement. All the rest of variables fall between 2 to 3 mean indicating some level of agreement. The reactive export motivations are presented in Table 26.

4.5.2. Proactive export motivations

Management's interest in internationalization, management's international experience and also our company has never considered its home market as the only market were used as variables to measure whether proactive export motivations factored in

for companies to make the decision to internationalize their operations. The likert scale of 1 to 5 was used (1 indicating strong agreement and 5 indicating strong disagreement). The data seems to suggest that the variable our company has never considered its home market as the only market (mean 2,93) seems to gain less agreement relative to the other proactive export motivations. The proactive motivations are presented in Table 27.

Table 26. Reactive export motivations.

| | N | Min. | Max. | Mean | Std. Deviation | Skewness |
|--|----------|-------------|-------------|-------------|-----------------------|-----------------|
| Internationalization of the customer | 15 | 1 | 5 | 1,87 | 1,407 | 1,689 |
| Internationalization of competitors | 15 | 1 | 5 | 1,87 | 1,246 | 1,565 |
| Success of competitors in internationalization | 15 | 1 | 5 | 2,20 | 1,320 | ,653 |
| Competitive foreign subcontractors | 15 | 1 | 5 | 3,33 | 1,676 | -,506 |
| Inadequate demand in the home market | 11 | 1 | 5 | 2,82 | 1,401 | ,390 |
| Increasing competition in home market | 15 | 1 | 5 | 3,07 | 1,624 | -,123 |
| Foreign inquiry about the company's product/services | 15 | 1 | 5 | 2,67 | 1,543 | ,244 |
| Lack of subcontractors in the home market | 15 | 1 | 5 | 3,67 | 1,543 | -,698 |
| Export subsidies/ subsidies for international operations | 15 | 1 | 4 | 1,80 | 1,146 | 1,103 |
| Contact from the chamber of commerce/other support organizations | 13 | 1 | 5 | 3,08 | 1,754 | -,356 |

Hence, this seems to indicate that most of the companies still consider the domestic market as having a potential for their apparel products. During the follow-up telephone conversations that the researcher had with some of the respondents, some of them mentioned that they have not yet studied the domestic market and hence could not attribute their motivation to export due to lack of demand in the domestic market. Consequently, in relation to these comments from respondents and the above data, home market seems to be still under consideration as the current estimated population of Ethiopia is approximately 74 million, and this finding is not very surprising in terms of Apparel companies from developing countries. Similarly, management's international experience (mean 2,64) and management's interest in internationalization (2,86). Hence, the role of management and their motivation may have a certain level of influence on the internationalization decision of SMEs in Ethiopia. In conclusion, this data seems to

suggest that the reactive export motivations seem to be the main driving force for SMEs in terms of their motivation to internationalize their outward activities.

Table 27. Proactive export motivations.

| | N | Min. | Max. | Mean | Std. Deviation | Skewness |
|---|----------|-------------|-------------|-------------|-----------------------|-----------------|
| Management's interest in internationalization | 15 | 1 | 5 | 2,80 | 1,935 | ,257 |
| Management's international experience | 15 | 1 | 5 | 2,67 | 1,633 | ,282 |
| Our company has never considered its home market as the only market | 15 | 1 | 5 | 2,93 | 1,668 | ,227 |

4.5.3. Proposition testing

The empirical objective of the present study was to test the propositions developed in the theoretical part namely to find out what impacted firm's decision to internationalize their operations. Consequently, this study aimed to analyze how proactive or reactive motivations have impacted SMEs. Hence, the proposition 4, which is listed on Table 3, was developed. The finding of this study supports other studies that SMEs internationalize their operations because of reactive motivations. The main triggering factors (reactive motivations) were export subsidies of international operations, internationalization of customers, and internationalization of competitors.

4.6. Environmental and other factors impact on internationalization process

The impact of environmental factors both internal and external will be investigated in this section. In addition, the influence of size and resources on the internationalization process of SMEs will be investigated based on the perception of respondent companies.

Environmental Factors: external and internal factors

From environmental factors, high risk in overseas market (mean 2,24), lack of appropriate knowledge concerning techniques of foreign operations (mean 2,28) and difficulty in identifying overseas decision-makers (mean 2,33) were identified by the respondents as the environmental factors most impacting their international operations. On the other hand, unfamiliar with foreign cultures (mean 3,53), fear of the unknown (mean 3,44), and legislation in foreign markets (3,29) seem not to have tremendous impact on their international operations as the other environmental variables listed in Table 27.

In terms of the overall firm characteristics, it was measured using variables such as domestic market situation if favorable, our organization structures facilities our business and the financial capability of our company facilities our foreign market expansion. Firm characteristics variables are presented in Table 29.

In Table 30, the likert scale 1 to 5 was used (1 indicating strong agreement and 5 indicating strong disagreement). From these three variables, our organization structure facilitates our business variable (mean 1,94) seems to gain more agreement among the respondents. This may suggest that the respondents, who are mostly owners and part of top management, perceive that their firm's internal factor is favorable for internationalization. In addition, they also seem to be satisfied with the domestic market situation (mean 2,44).

In table 31, the likert scale 1 to 5 was used (1 indicating strong agreement and 5 indicating strong disagreement). From these three variables, domestic market situation is favorable variable (mean 2,44) seems to gain more agreement among the respondents. This may suggest that the respondents, who are mostly owners and part of top management, perceive that their firm's domestic market situation is favorable.

Table 28. Environmental factors in international operations.

| | N | Min. | Max. | Mean | Std. Deviation | Skewness |
|--|----|------|------|------|----------------|----------|
| High risk in overseas markets | 17 | 1 | 5 | 2,24 | 1,522 | ,997 |
| Lack of appropriate knowledge concerning knowledge about foreign markets | 18 | 1 | 5 | 2,44 | 1,423 | ,608 |
| Lack of appropriate knowledge concerning techniques of foreign operations | 18 | 1 | 4 | 2,28 | 1,227 | ,260 |
| Lack of knowledge concerning ways of doing business in foreign market | 18 | 1 | 5 | 2,44 | 1,338 | ,382 |
| Lack of knowledge concerning key people in business organizations in foreign markets | 18 | 1 | 5 | 2,33 | 1,534 | ,795 |
| Difficulty in identifying overseas decision-makers | 18 | 1 | 5 | 2,33 | 1,495 | ,660 |
| Working capital is not available | 17 | 1 | 5 | 2,59 | 1,583 | ,566 |
| Fear of the unknown | 16 | 1 | 5 | 3,44 | 1,750 | -,566 |
| Unfamiliar with foreign cultures | 15 | 1 | 5 | 3,53 | 1,598 | -,676 |
| Small size of the company | 17 | 1 | 5 | 3,00 | 1,803 | ,000 |
| Lack of continuity of overseas orders | 16 | 1 | 5 | 2,63 | 1,746 | ,405 |
| Legislation in the foreign market | 14 | 1 | 5 | 3,29 | 1,773 | -,312 |

Table 29. Firm characteristics.

| | N | Min. | Max. | Mean | Std. Deviation | Skewness |
|--|----|------|------|------|----------------|----------|
| Domestic market situation is favorable | 18 | 1 | 5 | 2,44 | 1,464 | ,629 |
| Our organization structure facilitates our business | 18 | 1 | 5 | 1,94 | 1,162 | 1,385 |
| Financial capability of our company facilitates our foreign market expansion | 17 | 1 | 5 | 3,28 | 1,447 | -,285 |

Resources of the SME: On the contrary, the financial capability of our company facilitates our foreign market expansion variable (3,28) seems to gain some level of disagreement relative to other firm characteristics variables. Responses on financial capability our company facilitates our foreign market expansion is shown in Table 31. Resources of SMEs are expected to facilitate/constrain firm's internationalization of operations (Q13g). It was measured using working capital is not available (mean 2,59).

Table 30. Organization structure and business.

Our Organisation Structure Facilitates Our Business

| | | Frequency | Valid Percent |
|-------|-------------------|-----------|---------------|
| Valid | Strongly agree | 8 | 44,4 |
| | 2 | 6 | 33,3 |
| | 3 | 2 | 11,1 |
| | 4 | 1 | 5,6 |
| | Strongly disagree | 1 | 5,6 |
| | Total | 18 | 100,0 |

Table 31. Domestic market situation.

Domestic Market Situation is Favourable

| | | Frequency | Valid Percent |
|-------|-------------------|-----------|---------------|
| Valid | Strongly agree | 6 | 33,3 |
| | 2 | 6 | 33,3 |
| | 4 | 4 | 22,2 |
| | Strongly disagree | 2 | 11,1 |
| | Total | 18 | 100,0 |

In table 33, the likert scale 1 – 5 was used 1 indicating strong agreement and 5 indicating strong disagreement. 6 (35 percent) respondent companies strongly agreed whereas 4 (23,5 percent) strongly disagreed, that unavailable working capital poses a challenge in international market. Response for working capital is not available and poses a challenge in international market is presented in Table 33.

Size of the SME: Is expected to facilitate/constrain firm's internationalization operations (13j). It was measured using small size of the company poses challenge in the international market (3,00). The likert scale 1 – 5 was used 1 indicating strong agreement and 5 indicating strong disagreement. 6 (35,3 percent) respondent companies strongly agreed whereas 6 (35,3 percent) strongly disagreed that small size poses challenge in international market. The data is presented in Table 34.

Table 32. Financial capability of company.

Financial Capability of Our company Facilitates Our Foreign Market Expansion

| | | Frequency | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------------|--------------------|
| Valid | Strongly agree | 3 | 16,7 | 16,7 |
| | 2 | 2 | 11,1 | 27,8 |
| | 3 | 5 | 27,8 | 55,6 |
| | 4 | 3 | 16,7 | 72,2 |
| | Strongly disagree | 5 | 27,8 | 100,0 |
| | Total | 18 | 100,0 | |

Table 33. Working capital availability.

Working Capital is not Available

| | | Frequency | Valid Percent |
|---------|-------------------|-----------|---------------|
| Valid | Strongly agree | 6 | 35,3 |
| | 2 | 3 | 17,6 |
| | 3 | 4 | 23,5 |
| | Strongly disagree | 4 | 23,5 |
| | Total | 17 | 100,0 |
| Missing | No Response | 1 | |
| | Total | 18 | |

Table 34. Size of the company.

Small Size of the Company

| | | Frequency | Valid Percent |
|---------|-------------------|-----------|---------------|
| Valid | Strongly agree | 6 | 35,3 |
| | 2 | 2 | 11,8 |
| | 3 | 1 | 5,9 |
| | 4 | 2 | 11,8 |
| | Strongly disagree | 6 | 35,3 |
| | Total | 17 | 100,0 |
| Missing | No Response | 1 | |
| | Total | 18 | |

4.6.2. Proposition testing

The empirical objective of the present study was to test the Propositions developed in the theoretical part namely to find out whether the contingency view explains internationalization process of SMEs. Hence, the proposition 1.2, which is listed on Table 3 was developed. This Proposition was tested by environmental factors (Q13, Q17), resources of the company (13g) and size of the company (13j). The finding of this study supports other studies that environmental factors such as high risk in overseas markets seems to pose challenges to SMEs internationalizing their operations.

In addition, lack of appropriate knowledge concerning the techniques of foreign operations, lack of knowledge concerning key people in business organizations in foreign markets seem to pose a challenge for SMEs internationalizing their operations. Furthermore, difficulty in identifying overseas decision-maker also seems to pose a challenge to SMEs internationalizing their operations. In terms of resources, more than half of the respondents seem to agree that unavailable working capital seems to pose a challenge in their internationalization process. On the other hand, in regards to size, there seems to be equal level of agreement and disagreement that it poses challenge to SMEs in their internationalization.

4.7. Evaluation of propositions

This chapter deals with the Propositions drawn in the theoretical part of the research. Propositions will either be accepted or rejected. The measure for testing of propositions is based on the frequency of responses and the mean of responses.

Proposition 1.1 assumed that the stage models of internationalization with the network approach explain the internationalization process of SMEs in developing countries. For the stage models, the operation mode followed the stage model's assumption. Almost all the companies have started their internationalization with less commitment mode (export). In addition, as the stage models suggest, almost all of the companies have started to export to few countries first. However, in terms of choice of target market, the result does not support the stage models as all the respondents export to large business distance foreign countries and also physically distant countries. In addition, the nature of the products they have been importing and exporting has remained the same. Hence, the result only supports the operation mode aspects of the stage models. *Hence, from P 1.1: the operation mode will be accepted, the market pattern will be rejected and the product pattern will also be rejected.*

Proposition 1.2 assumed that the contingency view explains the internationalization process of SMEs in developing countries. In terms of the apparel SMEs in Ethiopia, the main triggering factor for their internationalization and the choice of the target market

(USA) was found to be the African Growth Opportunity Act (AGOA), which allows Ethiopian apparel SMEs to export duty and quota free. Hence, the market opportunity that AGOA has afforded was found to be one of the main explanatory factors for internationalization of the Apparel SMEs in Ethiopia. *Hence, P 1.2 will be accepted: Contingency view explains the internationalization process of SMEs in developing countries.*

Proposition 2 assumed that international behavior of firms indicates that a majority of firms undertake different forms of internationalization that is inward, outward and linked at the same time. The majority of the firms were found to undertake both inward and outward at the same time. However, there were only few companies who have undertaken inward, outward and linked at the same time. *Hence, majority of the firms undertake both inward and outward internationalization was accepted while majority of the firms undertake inward, outward and linked at the same time was rejected.*

Proposition 3 assumed that a manager's/owner's international orientation has a positive impact on the internationalization process of SMEs. In terms of the apparel SMEs in Ethiopia, for the majority of the firms, manager's/owner's international orientation was found to influence the internationalization process of SMEs. Management's international orientation was measured by time spent abroad (lived abroad), worked abroad, worked for a foreign company in Ethiopia, worked for an Ethiopian Company abroad. *Hence, P3 will be accepted: A manager's/owner's international orientation has a positive impact on the internationalization process of SMEs.*

Proposition 4 assumed that the majority of firms in developing countries internationalize their operations because of reactive motivations. In terms of the apparel SMEs in Ethiopia, For the majority of the firms what triggered them to internationalize were found to be reactive motivations such as export subsidies of international operations, internationalization of customers, and internationalization of competitors., Management's interest in internationalization, management's international experience and also whether the company has never considered its home market as the only market, were used to measure proactive motivations. Relative to reactive motivations, proactive

motivations were found to be less frequent among apparel SMEs in Ethiopia. *Hence, P4: will be accepted. The Majority of the firms internationalize their operations because of reactive motivations.* The summary of the propositions is presented in Table 35.

Table 35. Summary of propositions.

| | | |
|-------|--|----------|
| P1.1. | The stage models of internationalization with the network approach, explain the internationalization process of SMEs in developing countries. | |
| | - Stage model (market pattern – business distance). | Rejected |
| | - Stage model (product pattern). | Rejected |
| | - Stage model (operation mode). | Accepted |
| | -Network (social network). | Accepted |
| P1.2. | Contingency view explains the internationalization process of SMEs in developing countries. | Accepted |
| P2 | The international behavior of companies indicates that the majority of companies undertake different forms of internationalization that is. outward, inward and linked at the same time. | |
| | - Firms undertake both Inward internationalization and outward internationalization at the same time. | Accepted |
| | - Firms undertake inward internationalization, outward internationalization, and linked at the same time | Rejected |
| P3 | A manager's/owner's international orientation has a positive impact on internationalization process of SMEs. | Accepted |
| P4 | The Majority of the firms internationalize their operations because of reactive motivations. | Accepted |

5. CONCLUSIONS, MANAGERIAL IMPLICATIONS, POLICY IMPLICATONS, AND FURTHER STUDDIES

In this chapter, first the conclusions of the study will be presented with the modified conceptual models. Secondly, the chapter will cover the managerial implications. Thirdly, policy implications will be presented. Finally, suggestions for further studies will be presented.

5.1. Conclusions

Contrary to observations made in the stage models, several companies in this study started their international activity in the same year they began their business or after few years of starting their business. According to McAuley (1999: 68) rapid involvement is defined as having international activities within the first year of being in business. Extant literature associated “instant internationals” with high tech companies, but McAuley (1999: 68) study on the Scottish arts and crafts, demonstrates that other companies can experience such activity. This study also supports similar findings (McAuley 1999, Kuada & Sorensen 1999: 113) that due to environmental and other factors, SMEs can become instant internationals. Hence, it can be claimed that most of the companies in the study had little domestic market experience before they launched their business abroad. This finding is also similar to other findings in the developing countries (Kuada & Sorensen 2000: 113). The findings of this study are summarized in this chapter.

5.1.1. Different forms of internationalization

These results support other studies conducted in the Nordic countries such as Finland that SMEs usually engage in operation modes with low cost (investment). Hence, at this

stage, the commitment to the foreign markets can be considered to be low as high investment indicates high commitment and low investment indicates low commitment. When companies use the direct export mode, it is expected that they would gain market knowledge relative to importing. In terms of importing, their market knowledge could be regarded to be low. However, when viewed from the inward internationalization perspective, the relationship and even a small amount of foreign market knowledge gained through this endeavor can be expected to contribute to prompting companies to increase their level of involvement and commitment to foreign markets. As companies gain more foreign market knowledge, those who are at the stage of importing or exporting could start to increase their level of involvement and commitment to foreign markets.

In terms of internationalization, the inward activities are as important as the outward activities. The relationships and networks, which are built during the inward activities, could result in benefits, which could ensue to outward activities. Even though, for the majority of the apparel SMEs in Ethiopia, the inward choice of target country did not correspond with their choice of export target markets, there were still important inward and outward connections for 33 percent of these SMEs. Since, this study is not a sample but rather a population study, which has tried to incorporate all apparel export companies with response rate of (60%), these small connections warrant careful considerations. In terms of the operation pattern and the product pattern, there was no significant relationship. This is because the products that were sourced were mainly fabrics, chemicals, and dyestuff. Whereas in most cases what were being exported, were finished garments and textiles.

When comparison is made on what was imported by SMEs in the beginning phase of their establishment with what they currently import, one can see that their current import exerts a lot of influence on their profitability. Fabric, chemicals, and dyestuff seem to be the most common products imported. To increase the profitability of SMEs, there seems to be a need to source these products locally. However, these products are not available yet in the local market or the products that are available in the local markets do not yet meet standard.

5.1.2. Holistic approach to internationalization of SMEs in developing countries

In terms of the stage models and mainly Luostarinen's model, Ethiopian SMEs are in the start up (NIMOS) phase and have used the export mode. These SMEs seem to start from a less commitment operation mode. In terms of the business distance, there are three factors to consider such as the geographic, cultural, and economic distance. The geographic distance between Ethiopia and the export destinations is great. The cultural distance is measured by the difference in language, educational level and economic development level between the domestic and the target market. In terms of cultural difference, the respondents do not perceive it to be a factor that impedes information flow. In addition, in regards to language and education level, it does not seem to impede the information flow, as the second official language of Ethiopia is English. In addition, the majority of the respondents also do not feel that they are unfamiliar with foreign cultures. However, one needs to take into account the extant literature in cross-cultural business management, Ethiopia is different from the most important export countries such as USA, Switzerland and Belgium. (see Hofstede 1984). Hence, their perception on foreign market knowledge may shed more light. As the finding shows, the majority of the respondents perceive high risk in overseas market. In addition the majority of the respondents also indicate that lack of appropriate knowledge concerning techniques of operating in foreign operations poses a challenge in international market. Moreover, majority of the respondents also found it difficult to identify overseas decision-makers operations. Hence, it seems in practical business situations, the respondents experience cultural distance. This result should be seen with the role of management/owner in internationalization process. If manager/owners have international orientation, they may not perceive any cultural difference with the most important foreign markets. However, in terms of economic development, the respondents perceive this variable impedes the information flow between the domestic and the target market.

These results are not very surprising in terms of the enormous cost associated in Ethiopia to be connected to Internet, and also the prevalent use of outdated machinery in most of the public sector companies. However, the business distance seems to be bridged by the African Growth Opportunity Act (AGOA), which was listed by some of

the respondents as one of the reasons for their internationalization and was confirmed by the follow-up telephone conversation with respondents. As AGOA allows Ethiopian Apparel SMEs to export their apparel duty and quota free, the geographic distance may not have a tremendous impact. Calof and Breamish's (1995: 126) finding indicates that stimuli for international change can be due to opportunity, environmental change, internal change, performance, and learning. Hence, the AGOA seems to provide that needed market opportunity for Ethiopian SMEs to internationalize their operation. Hence, this study supports the contingency view that companies internationalize due to market opportunity.

According to Luostarinen (1989: 136-137) the difference in the demand level facilitates export between the domestic and the target market. Hence, the overall conclusion is that in terms of the operation mode, Ethiopian Apparel SMEs seem to go the stage internationalization path. In terms of the business distance, it seems to be bridged by other factors such as the use of network and building up of relationships. The product pattern of the SMEs seems to be consistent. However, some of them are already building up new factories and their import products are expected to vary in future years. In addition, new foreign companies and domestic companies are already starting up textile manufacturing in Ethiopia, which is expected to cover most of the raw material needs of these SMEs. The environmental factors seem to influence the internationalization of SMEs, and the contingency view, partly the stage model (in terms of operation mode) and the network approach seem to explain the internationalization process of SMEs in developing countries. It was found out that the stage models alone do not explain the internationalization process of SMEs in the developing countries.

In terms of the role manager/owner have on the internationalization process, the finding shows that the majority of the respondents indicate that they are involved highly in terms of looking up for export possibilities. In addition, key management was found to be highly involved in developing international strategy. Furthermore, management commitment to international business was also deemed to be important by the respondents.

In terms of relationship and the increasing importance of network this study supports other studies from developing countries in terms of internationalization of firms. Ibeh (2003: 49-68) findings concerning Nigerian companies indicates the extensive use of relationships by Nigerian fashion designers. Consequently, this study also supports Ibeh's (2003) study and others from developing country concerning the extensive use of relationships and the increasing importance of networks (Ghauri, Lutz and Tesfom 2001) in the internationalization of firms from developing countries.

In conclusion, internationalization of SMEs takes different forms such as inward and outward. Both activities can also occur at the same time. In terms of the internationalization path that SMEs in developing countries have taken, the contingency view, with the network view and partly the stage view (operation mode) explain the internationalization of SMEs in Ethiopia. There is weak support for the stage view as the market pattern and product pattern of the respondent companies does not seem to support the stage models. The product pattern seems to be consistent, as there has not been a tremendous change as most of the SMEs are in the early phase of internationalization. Similarly, the cultural distance is large. However, as most managers/owners have studied abroad, this distance seems to be bridged. Therefore, one can argue that the role manager/owner play in bridging the cultural distance explains the perception of the managers/owners that cultural difference does not pose challenge in information flow between the company and the foreign market.

5.1.3. Reactive motivation to internationalize SMEs operations

SMEs seem to be prompted more by reactive motivation than proactive motivations to internationalize their operations. The reactive motivations such as export subsidies, proximity to customers, competitive pressures seem to be the predominant export motivations that led SMEs to internationalize their operations. It was interesting to note that inadequate domestic demand was not among the main motivating factors for companies to internationalize their operations. This factor was deemed by respondent companies to have not yet been explored. Hence, these findings seem to be different with existing Nordic studies conducted on SMEs motivation to internationalize their operations.

In conclusion of Chapter 5, the findings of this study suggest that internationalization process should be seen by taking into account not only the outward internationalization but also the inward internationalization of SMEs in developing countries. In terms of the inward internationalization influencing the outward internationalization, the evidence is not conclusive. However, there seems to be a connection between the inward and outward internationalization. The finding of the study supports the holistic view of internationalization of SMEs in developing countries. Specifically, the finding supports some aspects of stage theory. The contingency theory is also supported by this study. The network view and also the role of manager/owner also seem to play a role in the internationalization process of SMEs in developing countries. Hence, the original conceptual model, which was presented in Figure 10, is modified based on the finding of this study in Figure 15.

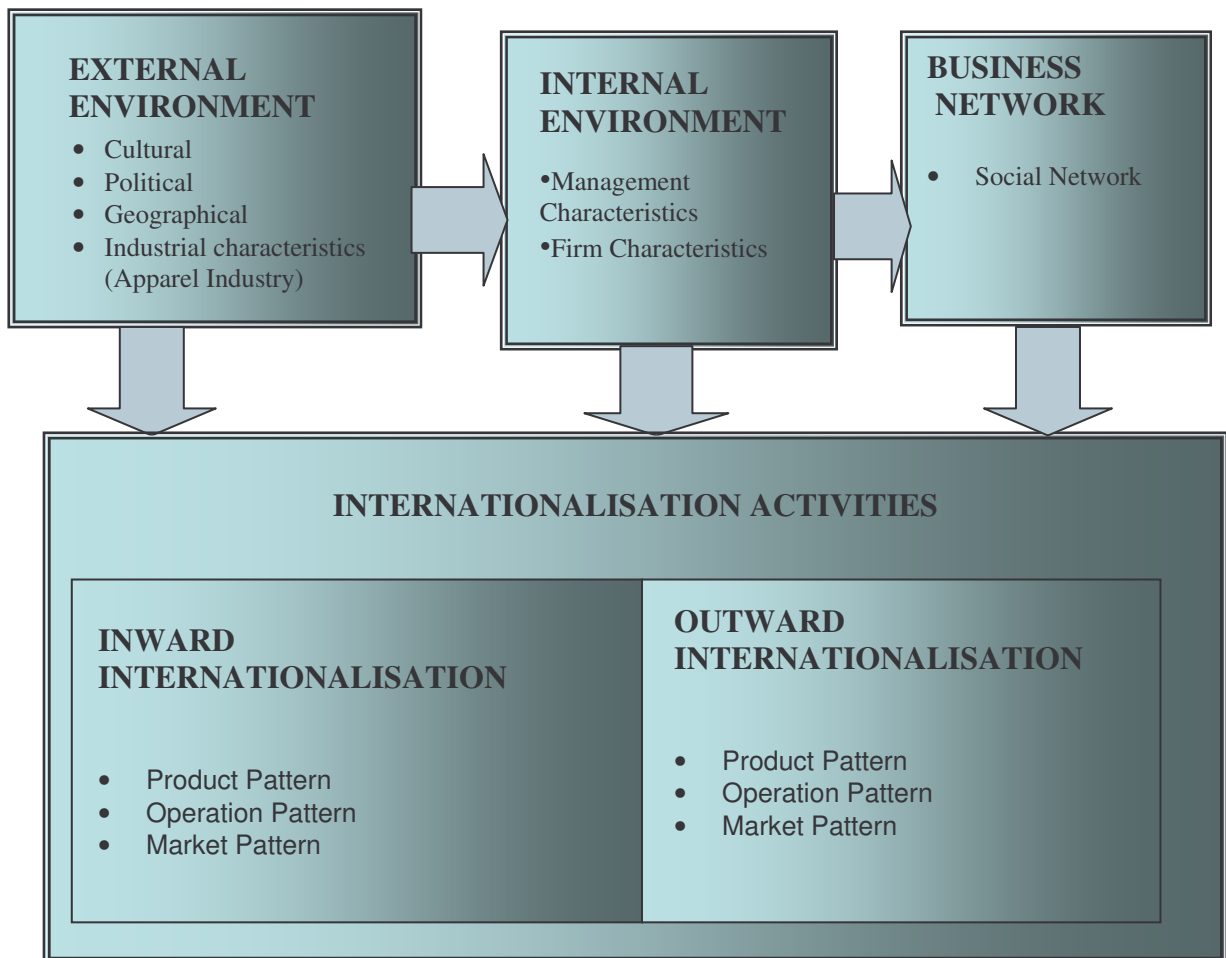


Figure 15. Modified conceptual framework

5.2. Managerial implications

SMEs should make an effort to produce their raw material by vertically integrating backward in the Ethiopian apparel value chain. If they would prefer to focus only on the garment production and not on raw materials production, they could still collaborate with existing and new companies that will start producing fabric, chemicals, and dyestuff. It will be very important to raise the quality of locally produced raw materials to meet international standards. SMEs, who aim to integrate backwards, with new entrants in the field of raw material production, or those who will continue to produce only garments, need to continue to participate in a network relationship. Existing networks should be consolidated and new networks should be established. In terms of

creating new network relationships, the network can be designed by the focal firm or independent institutions (government institutions or others) in such a way that SMEs could collaborate in sharing their foreign market knowledge in terms of sourcing requirements received from their global customers. The sharing of sourcing requirements in a network is expected to improve the quality of raw materials produced.

For the majority of the companies in this study, the main motivations to internationalize appear to be export subsidies, competitive pressures, and proximity to customers. Hence, each firm should not only analyze its motivations to internationalize but also examine existing firm competencies that would increase the effectiveness of their export strategy. Developing firm competencies deals with acquiring experience, systematic planning, use of market information, developing technology advantage, and placing emphasis on quality control. (Aaby & Slater 1989.)

Apparel SMEs had indicated that they participate in trade fairs. Hence, it is suggested that they continue to participate in trade fairs and also try to start or continue building relationship with foreign market based representatives and merchandisers. In addition, attempt should be made to participate in fashion shows and exhibitions. If the cost seems to be exorbitant, collaborating with other apparel companies to share costs and together participate in international affordable fashion shows, exhibitions, and other promotion activities to increase their visibility in the international market.

5.3. Policy implications

The government's policy has encouraged new Ethiopian garment companies to enter the Apparel industry. There are some areas that need to be strengthened in order for the Ethiopian Apparel SMEs to be competitive in the Apparel Industry globally. When comparison is made on what SMEs have imported while establishing their business with their current import products, one could see that their import products seem to have exerted a lot of influence on their profitability adversely. Fabric, chemicals, and dye stuff are the most common products imported. Hence, there seems to be a need to

source these products locally. However, these products are not available yet in the local market, or the products available in the local markets do not yet meet international standards. Due to this challenge, there seems to be a need for government to support local SMEs in backward vertical integration. This can be done by providing garment companies with more financial or tax incentives, if they invest in small-scale garment factories. Government can also encourage other local entrepreneurs to invest in the production of these input products in order to reduce the business costs and improve the overall profitability of the apparel companies.

Besides local investors, foreign investors should be encouraged to invest in products used for input, such as chemicals, dye, fabrics and others. Secondly, it would be important to provide support and alternative mechanisms for the transportation system. Thirdly, giving priority to companies both existing and new ones to enter the industry in the manufacturing of basic raw materials. This move will help existing companies to source locally the needed chemicals, dye stuff, accessories, fabrics, and others. Fourthly, networking possibilities should be encouraged. Fifthly, more effort should be made in creating training possibilities for apparel SMEs by working with institutions and other organizations. Seminars could be organized for apparel in international marketing by utilizing experts in specific foreign markets such as the US and EU. The training and seminars should be SMEs relevant to the apparel industry and dealing with international market challenges that SMEs currently face. Finally, more cooperation with the academic institutions should be facilitated in order to enhance research and development for the international marketing of apparel SMEs. Providing research and development funding to business academic institutions could be one way that could allow research institutes to become involved in analyzing international marketing challenges and provide solutions for SMEs in Ethiopia. Hence, for the business environment to improve and to strengthen the SMEs there is a need to conduct research in the areas that they have encountered challenges and also to determine the success factors that could help existing and new companies to be competitive globally.

5.4. Further research

Further research can be conducted on instant internationals. For instance, a longitudinal evaluation of their behavior in relation to internationalization could help in understanding how their international activities develop overtime. This finding can then be compared with the attitudes of non-exporters to better understand the barriers they perceive exist and what can be done to assist the non-exporters in regards to policy.

In order to gain more knowledge and insight in understanding what explains the internationalization process of SMEs, future research can be conducted by incorporating qualitative studies such as case studies. Hence, in depth understanding can be gained by utilizing pluralistic research method.

It would be beneficial to include other industries actively involved in international activities to have a better understanding of the Internationalization paths Ethiopian SMEs are taking. Hence, by including different industries, the generalizibility of this study can be enhanced. Other studies could incorporate different industries in Ethiopian and also other developing countries.

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APPENDIX 1.**Industrial Establishment for the year 1999/2000**

| Industrial Establishment for the year 1999/2000 | | | |
|--|-------------------|----------------|--------------|
| Industry | Government | Private | Total |
| Textile fabrics | 19 | 17 | 36 |
| Garment | 4 | 21 | 24 |

Source: Ethiopian Business Development Services Network (EBDSN)

Employment for the year 1999/2000

| Employment for the year 1999/2000 | | | |
|--|-------------------|----------------|--------------|
| Industry | Government | Private | Total |
| Textile fabrics | 13888 | 7060 | 20,948 |
| Garments | 1823 | 1929 | 3752 |

Source: Ethiopian Business Development Services Network (EBDSN)

APPENDIX 2.

Ethiopia Legesse Segaro
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21st December 2006

RESEARCH ON INTERNATIONALIZATION OF ETHIOPIAN APPAREL SMALL AND MEDIUM SCALE ENTERPRISES.

To Whom It May Concern:

I am writing to you in order to ask for your kind assistance in completing a brief questionnaire concerning Internationalization of Ethiopian Apparel Small and Medium Scale Enterprises. This research is the topic of my Masters Thesis for the University of Vaasa, Finland, and is conducted under the supervision of Professor Merja Karppinen, Professor of the Marketing Department in the University of Vaasa, Finland. The research examines the internationalization patterns of Ethiopian Apparel SMEs in terms of their product, market and operation modes.

Every returned questionnaire is very important; by filling up the questionnaire, you are indeed helping me to conduct this important research, which aims to provide valuable knowledge and insight to apparel industry in Ethiopia. As a reward, the research results will be available free of charge.

Please fill up the questionnaire. Your participation in this study, of course, is completely voluntary. I will handle all information provided by the participating companies confidentially. The results of the research will be published in my Master's Thesis, but the published results will not include any information that could be directly linked to you or your company. Neither will your or your company's name be mentioned in any published results.

If you have any questions about this research, please feel free to contact me either by email (ethiopia.segaro@uwasa.fi) or by phone (+358 405689374).

In advance, thank you very much for your assistance.

Yours sincerely,

Ethiopia Segaro

A STUDY OF THE INTENATIONALIZATION OF ETHIOPIAN APPAREL SMALL AND MEDIUM SIZED ENTERPRISES

PART ONE: BACKGROUND QUESTIONS

1. Kindly provide a description of the company and yourself.

a) Name of the company _____
Name of the respondent _____

b) Ownership
 Private
 Public
 if both, indicate the percentage Private _____ % Public _____ %

d) Gender
 Female
 Male

d) Occupation
 Owner (and part of Top management)
 Top management
 Other, please specify _____

e) Kindly indicate the time period spent abroad.
 Shorter period (under 6 months) Indicate country/countries _____
 Longer period (Over 6 months) Indicate country/countries _____
 None

f) Nationality
 Ethiopian
 Other nationality, please indicate _____

2. Please indicate primary field of business

Garment Leather
 Textile other, please specify _____

3. How many employees do you have in your company and how much time do they spend on international activity?
Please indicate your answers below.

a) Number of employees at the start of the company _____
b) Number of employees now (in 2006) _____
c) Percentage of this company's employees that spend over 50% of their time in international activity (in 2006) _____ %

7) Kindly indicate in the table below the **number and type (public/private) of customers** in the home market, foreign markets and in the most important country of foreign sales.

| Number and type of customer | In the home market | In foreign markets | In the most important country |
|-----------------------------|--------------------|--------------------|-------------------------------|
| a) 1-4 | | | |
| b) 5-10 | | | |
| c) 11-20 | | | |
| d) 21-49 | | | |
| e) 50-100 | | | |
| f) more than 100 | | | |

| | | | |
|-------------------|--|--|--|
| g) public sector | | | |
| h) private sector | | | |
| i) other, which | | | |

8) Describe your international activities.
a) What are the **three most important export and import markets**, and products (both when your company began and currently).

| Export markets | | | | Export products | | |
|------------------|----------------------|--------------------------|-----------------------------|-----------------|------------------|--------------|
| Start | | In year 2006 | | Start | | In year 2006 |
| Export countries | Export began in year | Export countries in 2006 | Export products per country | | Current products | |
| 1 | | | 1. Country | | | |
| 2 | | | 2. Country | | | |
| 3 | | | 3. Country | | | |

8b) If your company is involved in any other international activity such as those listed below; please indicate the foreign markets and products involved.

| | <u>Foreign markets</u> | <u>Products</u> | | <u>Foreign markets</u> | <u>Products</u> |
|---|------------------------|-----------------|--|------------------------|-----------------|
| Created Foreign strategic alliances | _____ | _____ | Conducted counter trade | _____ | _____ |
| Established foreign marketing office abroad | _____ | _____ | Established foreign co-operative manufacturing | _____ | _____ |

9. Which of the following statement **best describes your company's international activity** (please indicate that best describes this company's timing with (X)).

| | |
|---|--------------------------|
| a) We were among the first companies in our field to start international activities. The initiative to begin international activities came from our own company due to our experience of relationships with foreign counterparts. | <input type="checkbox"/> |
| b) We were among the first companies in our field to start international activity. However, the imitative to begin international activities came not from our company but from our foreign distributors or customers. | <input type="checkbox"/> |
| c) We started our international activities at the same time with the majority of the companies in our field. | <input type="checkbox"/> |
| d) We were among the last companies in our field to start international activities. | <input type="checkbox"/> |

10. Kindly indicate which **operation modes your company has used in the three most important foreign markets** (specify the name of the country below for Country one, Country two, and Country three respectively). In terms of operation modes, which operation mode(s) did you start with and what operation modes are you currently using. Indicate these modes with (X). You can choose as many operation modes as appropriate.

| | First country | | Second country | | Third country | |
|---|---------------|-------|----------------|-------|---------------|-------|
| | Start | Now | Start | Now | Start | Now |
| Direct export to the end customer | _____ | _____ | _____ | _____ | _____ | _____ |
| Licensing | _____ | _____ | _____ | _____ | _____ | _____ |
| Subcontracting to a domestic or foreign company | _____ | _____ | _____ | _____ | _____ | _____ |
| Importer / reseller (distributor) | _____ | _____ | _____ | _____ | _____ | _____ |
| Own sales unit abroad | _____ | _____ | _____ | _____ | _____ | _____ |
| Own manufacturing unit abroad | _____ | _____ | _____ | _____ | _____ | _____ |
| Foreign agent | _____ | _____ | _____ | _____ | _____ | _____ |
| Domestic agent | _____ | _____ | _____ | _____ | _____ | _____ |
| Joint venture | _____ | _____ | _____ | _____ | _____ | _____ |
| Acquisition | _____ | _____ | _____ | _____ | _____ | _____ |
| Other, please specify | _____ | _____ | _____ | _____ | _____ | _____ |

11) Kindly indicate whether you agree or disagree with the following statements concerning **how your company began its international activity**. Please indicate your choice by circling a number for each question. (Please indicate your choice on the scale from 1 to 5, 1= Strongly agree, and 5= Strongly disagree)

| | Strongly agree | | | Strongly disagree | |
|---|----------------|---|---|-------------------|---|
| a) Our foreign supplier provided us with contacts | 1 | 2 | 3 | 4 | 5 |
| b) Our freight provider provided us with business contacts | 1 | 2 | 3 | 4 | 5 |
| c) Our import agent helped us get the first export inquiry | 1 | 2 | 3 | 4 | 5 |
| d) Our domestic agent helped us get the first export inquiry | 1 | 2 | 3 | 4 | 5 |
| e) Our foreign agent provided us with contacts | 1 | 2 | 3 | 4 | 5 |
| f) Our owner/manager looked for export possibilities | 1 | 2 | 3 | 4 | 5 |
| g) We conducted market research, selected the market and chose what entry mode to use (e.g. export) | 1 | 2 | 3 | 4 | 5 |

PART THREE: MOTIVATION FOR INTERNATIONAL ACTIVITY

12) Kindly estimate to what extent the following factors have **impacted your company's decision to start operating internationally**. Please indicate your choice by circling a number for each question. (Please indicate your choice on the scale from 1 to 5, 1= Extremely major impact, and 5 = Extremely minor impact).

| Triggering factors | Extremely major impact | | | Extremely minor impact | |
|--|------------------------|---|---|------------------------|---|
| a) Internationalization of customers | 1 | 2 | 3 | 4 | 5 |
| b) Internationalization of competitors | 1 | 2 | 3 | 4 | 5 |
| c) Success of competitors in international markets | 1 | 2 | 3 | 4 | 5 |
| d) Management's interest in internationalization | 1 | 2 | 3 | 4 | 5 |
| e) Management's international experience | 1 | 2 | 3 | 4 | 5 |
| f) Competitive foreign sub contractors | 1 | 2 | 3 | 4 | 5 |
| g) Inadequate demand in the home market | 1 | 2 | 3 | 4 | 5 |

| | | | | | |
|--|---|---|---|---|---|
| h) Increasing competition in home market | 1 | 2 | 3 | 4 | 5 |
| i) Foreign inquiry about the company's product / services | 1 | 2 | 3 | 4 | 5 |
| j) Lack of subcontractors in the home market | 1 | 2 | 3 | 4 | 5 |
| k) Our company has never considered its home market as the only market | 1 | 2 | 3 | 4 | 5 |
| l) Export subsidies / subsidies for international operations | 1 | 2 | 3 | 4 | 5 |
| m) Contact from the chamber of commerce/ other support organizations | 1 | 2 | 3 | 4 | 5 |
| n) Other reasons, please specify _____ | | | | | |

PART FOUR: ENVIRONMENTAL FACTORS IN INTERNATIONAL OPERATIONS

13. Kindly indicate whether you agree or disagree with the following statements concerning **major environmental factors that pose challenges in international market** that best describes your company's major problems. Please indicate your choice by circling a number for each question. (Please indicate your choice on the scale from 1 to 5, 1 = Strongly agree, and 5= Strongly disagree)

| | Strongly agree | | | | | Strongly disagree | | | | |
|---|-----------------------|---|---|---|---|--------------------------|--|--|--|--|
| a) High risk in overseas markets | 1 | 2 | 3 | 4 | 5 | | | | | |
| b) Lack of appropriate knowledge concerning knowledge about foreign markets | 1 | 2 | 3 | 4 | 5 | | | | | |
| c) Lack of appropriate knowledge concerning techniques of foreign operations | 1 | 2 | 3 | 4 | 5 | | | | | |
| d) Lack of knowledge concerning ways of doing business in foreign market | 1 | 2 | 3 | 4 | 5 | | | | | |
| e) Lack of knowledge concerning key people in business organisations in foreign markets | 1 | 2 | 3 | 4 | 5 | | | | | |
| f) Difficulty in identifying overseas decision-makers | 1 | 2 | 3 | 4 | 5 | | | | | |
| g) Working capital is not available | 1 | 2 | 3 | 4 | 5 | | | | | |
| h) Fear of the unknown | 1 | 2 | 3 | 4 | 5 | | | | | |
| i) Unfamiliar with foreign cultures | 1 | 2 | 3 | 4 | 5 | | | | | |
| j) Small size of the company | 1 | 2 | 3 | 4 | 5 | | | | | |
| k) Lack of continuity of overseas orders | 1 | 2 | 3 | 4 | 5 | | | | | |
| l) Legislation in the foreign market | 1 | 2 | 3 | 4 | 5 | | | | | |
| m) Other reasons, kindly specify _____ | | | | | | | | | | |

14. Kindly indicate whether you agree or disagree with the following statements concerning **factors preventing or disturbing the flow of information** between your company and the foreign market. Please indicate your choice by circling a number for each question. (Please indicate your choice on the scale from 1 to 5, 1= Strongly agree, and 5= Strongly disagree)

| | Strongly agree | | | | | Strongly disagree | | | | |
|--|-----------------------|---|---|---|---|--------------------------|--|--|--|--|
| a) The language difference/similarity has a tremendous impact in impeding/facilitating our foreign market entry and commitment to that market | 1 | 2 | 3 | 4 | 5 | | | | | |
| b) The cultural difference/similarity has a big influence in impeding/facilitating our foreign market entry and commitment in that market. | 1 | 2 | 3 | 4 | 5 | | | | | |
| c) The political system difference/similarity has a big influence in impeding/facilitating our foreign market entry and commitment to that market. | 1 | 2 | 3 | 4 | 5 | | | | | |
| d) The difference/similarity in the level of education has a big influence in impeding/facilitating our foreign market entry and commitment to that market. | 1 | 2 | 3 | 4 | 5 | | | | | |
| e) The difference/similarity in the level of industrial development has a big influence in impeding/facilitating our foreign market entry and commitment to that market. | 1 | 2 | 3 | 4 | 5 | | | | | |

PART FIVE: MANAGEMENT CHARACTERISTIC

15. Kindly indicate whether management had **international experience before the company started to operate in international markets**. Please indicate your choice by using (X)

- a) Management has lived abroad
 No one One of the management personnel Several of the management personnel
- b) Management has studied abroad
 No one One of the management personnel Several of the management personnel
- c) Management has worked in another Ethiopian company in international assignments
 No one One of the management personnel Several of the management personnel
- d) Management has worked in a foreign company in international assignments
 No one One of the management personnel Several of the management personnel
- e) Other experiences _____

16. Kindly indicate whether you agree or disagree with the following statements concerning **management characteristics**. Please indicate your choice by circling a number for each question. (Please indicate your choice on the scale from 1 to 5, 1= Strongly agree, and 5= Strongly disagree)

| | Strongly agree | | | | | Strongly disagree | | | | |
|---|----------------|---|---|---|---|-------------------|--|--|--|--|
| a) Senior management spends more than 10% time on international business | 1 | 2 | 3 | 4 | 5 | | | | | |
| b) International transaction experience is needed to be successful in international business | 1 | 2 | 3 | 4 | 5 | | | | | |
| c) Building long-term relationships are important in international business | 1 | 2 | 3 | 4 | 5 | | | | | |
| d) It is important to conduct international market research before entering a target foreign market. | 1 | 2 | 3 | 4 | 5 | | | | | |
| e) Key management is highly involved in developing the international strategy to expand business operations overseas. | 1 | 2 | 3 | 4 | 5 | | | | | |

PART SIX: FIRM CHARACTERISTIC

17. Kindly provide information for the following questions related to **characteristics of your company**. Please indicate your choice by circling a number for each question. (Please indicate your choice on the scale from 1 to 5, 1= Strongly agree, and 5= Strongly disagree)

| | Strongly agree | | | | | Strongly disagree | | | | |
|--|----------------|---|---|---|---|-------------------|--|--|--|--|
| a) Domestic market situation (size of the market, competitive forces, industry conditions, and government regulation) is favourable for our business | 1 | 2 | 3 | 4 | 5 | | | | | |
| b) Our organisation structure facilitates our business | 1 | 2 | 3 | 4 | 5 | | | | | |
| c) The financial capability of our company facilitates our foreign market expansion | 1 | 2 | 3 | 4 | 5 | | | | | |

18. How would you characterise the **competitiveness/operation level** of the following factors in your company? Please indicate your choice by circling a number for each question. (Please indicate your choice on the scale from 1 to 5, 1= Extremely high/excellent, and 5 = Extremely low/poor)

| | Extremely high/ excellent | | | | | Extremely low/poor | | | | |
|--|---------------------------|---|---|---|---|--------------------|--|--|--|--|
| a) Knowledge of customers in the main foreign market | 1 | 2 | 3 | 4 | 5 | | | | | |
| b) Knowledge of competitors in the main foreign market | 1 | 2 | 3 | 4 | 5 | | | | | |
| c) Quality level of product/service | 1 | 2 | 3 | 4 | 5 | | | | | |
| d) Environmental friendliness of the product/service | 1 | 2 | 3 | 4 | 5 | | | | | |
| e) Development of new products | 1 | 2 | 3 | 4 | 5 | | | | | |

| | | | | | |
|--|---|---|---|---|---|
| f) Price competitiveness | 1 | 2 | 3 | 4 | 5 |
| g) Advertising effectiveness | 1 | 2 | 3 | 4 | 5 |
| h) Other promotional methods effectiveness | 1 | 2 | 3 | 4 | 5 |
| i) Ability to use marketing tools to differentiate the product/service | 1 | 2 | 3 | 4 | 5 |
| j) Effectiveness of distribution | 1 | 2 | 3 | 4 | 5 |
| k) Effectiveness of production process | 1 | 2 | 3 | 4 | 5 |
| l) Effectiveness of purchasing | 1 | 2 | 3 | 4 | 5 |
| m) Product/service adaptation (if adaptation is used) | 1 | 2 | 3 | 4 | 5 |
| n) Scope of product offered | 1 | 2 | 3 | 4 | 5 |
| o) Level of quality control | 1 | 2 | 3 | 4 | 5 |
| p) The ability of personnel in foreign sales to operate in international competition | 1 | 2 | 3 | 4 | 5 |
| q) Relations to export channels/middlemen in the foreign sales | 1 | 2 | 3 | 4 | 5 |
| r) Management international experience | 1 | 2 | 3 | 4 | 5 |
| s) Management level of education | 1 | 2 | 3 | 4 | 5 |
| t) Management commitment to international business | 1 | 2 | 3 | 4 | 5 |
| u) Management language skills | 1 | 2 | 3 | 4 | 5 |
| v) Technology level in the firm | 1 | 2 | 3 | 4 | 5 |
| w) Firm competitiveness (overall) | 1 | 2 | 3 | 4 | 5 |

PART SEVEN: RELATIONSHIP AND INTERNATIONALIZATION

19. Kindly provide information for the following questions related to **relationships and internationalization**. . Please indicate your choice by circling a number for each question. (Please indicate your choice on the scale from 1 to 5, 1= Strongly agree, and 5= Strongly disagree)

| | Strongly agree | | | | Strongly disagree |
|---|-------------------|---|---|---|----------------------|
| a) In terms of our foreign market entry selection and entry initiatives, our formal relationships with business partners have played a tremendous role | 1 | 2 | 3 | 4 | 5 |
| b) Even though, our financial resources were limited, we were able to overcome this shortcoming through co-operation with other partners in business to offer a broader range of products and save costs. | 1 | 2 | 3 | 4 | 5 |
| c) Our social contacts in foreign markets have helped our business to gain important business information regarding new customers. | 1 | 2 | 3 | 4 | 5 |
| d) Please indicate any other relevant information on relationship and your foreign market entry and commitment _____ | | | | | |

PART EIGHT: PERFORMANCE OF THE COMPANY

20. Kindly indicate **how satisfied you are with the following factor in the main foreign market**. Please indicate your choice by circling a number for each question. (Please indicate your choice on the scale from 1 to 5, 1= Very satisfied, and 5= Very dissatisfied)

| | Very satisfied | | | | Very dissatisfied |
|---|-------------------|---|---|---|----------------------|
| a) Success in general compared with company's objective over the past three year | 1 | 2 | 3 | 4 | 5 |
| b) Market share over the past three years | 1 | 2 | 3 | 4 | 5 |
| c) Pre-tax profitability over the past three years | 1 | 2 | 3 | 4 | 5 |
| d) Sales growth of most important product/service as compared with competitors in main foreign market | 1 | 2 | 3 | 4 | 5 |

| | | | | | |
|--|---|---|---|---|---|
| 21. Kindly estimate in general the company's success in foreign operations | 1 | 2 | 3 | 4 | 5 |
| 22. Kindly estimate the overall success of your most important product/service in international markets. | 1 | 2 | 3 | 4 | 5 |

PART NINE: FUTURE OF THE COMPANY'S INTERNATIONAL OPERATIONS

| | | | | | |
|---|-----------------------|---|---|---|--------------------------|
| 23. Kindly indicate your opinions about the future development of the company's field of business as compared with present situation. Please indicate your choice by circling a number for each question. (Please indicate your choice on the scale from 1 to 5, 1= Strongly agree, and 5= Strongly disagree) | | | | | |
| | Strongly agree | | | | Strongly disagree |
| a) Markets in our field of business are increasing | 1 | 2 | 3 | 4 | 5 |
| b) Research and development in our field of business will become more intense | 1 | 2 | 3 | 4 | 5 |
| c) There will be more competitors in our field of business | 1 | 2 | 3 | 4 | 5 |
| d) The amount of bankruptcy in our field of business will increase | 1 | 2 | 3 | 4 | 5 |
| e) The networks in our field of business will become more international | | | | | |
| f) Companies in our field of business compete even more in narrow product lines | 1 | 2 | 3 | 4 | 5 |
| g) The role of price competition will decrease | 1 | 2 | 3 | 4 | 5 |
| h) The role of advertising in competition will increase | 1 | 2 | 3 | 4 | 5 |
| i) The role of environmental (external and internal) factors in competition will increase | 1 | 2 | 3 | 4 | 5 |
| j) The company's diversification into several product lines will increase | 1 | 2 | 3 | 4 | 5 |
| k) Technology intensiveness of the field will increase | 1 | 2 | 3 | 4 | 5 |
| l) The use of internet will increase | 1 | 2 | 3 | 4 | 5 |
| m) Co-operation with customers will increase | 1 | 2 | 3 | 4 | 5 |
| n) Co-operation with suppliers will increase | 1 | 2 | 3 | 4 | 5 |
| o) Kindly indicate any other opinion _____ | | | | | |

THANK YOU VERY MUCH FOR YOUR ANSWERS

Regarding any question in the questionnaire, please contact:

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