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INTERNATIONALIZATION CHALLENGES OF ETHIOPIAN SMEs

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Tutkimuksen tarkoituksena oli selvittää etiopialaisten pienten ja keskisuurten yhtiöiden (pk-yhtiöt) kansainvälistymiseen liittyviä haasteita. Pk-yhtiöillä on olennainen rooli maan talouden kehittämisessä. Koska pk-yhtiöiden kansainvälistymistoimiin vaikuttaa useita eri tekijöitä, pyritään tutkimuksella löytämään keinoja kansainvälistymiseen liittyvien haasteiden pienentämiseen tulevaisuudessa.

Tutkimuksen alussa on toteutettu yksityiskohtainen kirjallisuussarvio kansainvälistymisestä ja siihen liittyvistä haasteista. Sekä kvantitatiivista, että kvalitatiivista lähestymistapaa on käytetty keskeisten kansainvälistymisen haasteiden selvittämiseksi. Tietojen keräämiseksi lähetettiin kysely 150:lle pk-yhtiölle. Lisäksi tehtiin haastattelu kolmelle case-yhtiölle kolmelta eri toimialalta; maataloudesta, yleisestä viennistä ja teollisesta tuotannosta.

Tutkimuksen empiiriset tulokset osoittavat sekä sisäisten, että ulkoisten tekijöiden olevan haasteellisia etiopialaisille pk-yhtiöille. Sekä kvalitatiiviset, että kvantitatiiviset tulokset osoittavat kansainvälistymiseen, tietoon ja markkinointiin liittyvät osaamisvajeet, vientituotteen laatu puutteet, ulkomaisten kulutustottumusten eroavaisuudet, vientimarkkinoiden tuotteeseen kohdistuvat vaatimukset sekä julkisen sektorin tuen puutteen suurimmiksi viennin haasteiksi.

Muita kvalitatiivisessa tutkimuksessa esiin nousseita haasteita ovat: kulttuuri- ja kielierot, käyttöpääoman puute, tehoton tuotanto, kotimarkkinakysynnän kasvu, logistiikka ja tarjontaketju, kilpailu, kansainvälistymistä tukevien instituutioiden puute ja yleinen liiketoimintaympäristö.

Tulokset osoittavat, että yhtiö, tuote, vientimarkkina, makro-ympäristö ja toimialakohtaiset haasteet vaikuttavat Etiopialaisten pk-yhtiöiden kansainvälistymisaktiivisuuteen.

Avainsanat: Kansainvälistyminen, Kansainvälistymisprosessi, Kansainvälistymisen haasteet, Syyt kansainvälistymiseen, Pk-yhtiöt, Etiopia.

ABSTRACT

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This study was made to find out what the internationalization challenges of Ethiopian small to medium size enterprises (SMEs) are. SMEs play a vital role in the economic development of a country. As the internationalization activities of these SMEs is affected by various factors, a research to identify the challenges that hinder their internationalization activities was made in order to minimize the internationalization problems faced in the future.

A detailed literature review related to the internationalization and internationalization challenges was made. In order to find out the main internationalization challenges of Ethiopian SMEs both the quantitative as well as qualitative research method were applied. To gather the information questionnaires were sent to 150 SMEs and interviews with three case companies were made.

The empirical results of this study reveal that both the internal as well as the external factors were found to be challenges for the Ethiopian SMEs. Both the qualitative and quantitative results show that lack of internationalization, marketing and information knowledge, the quality of the export item, the distinctive foreign consumer preferences, the product requirements in the export market, and lack of support from the government were identified as a top challenges.

The other challenges which are identified in the qualitative research include: culture and language difference, lack of working capital, inefficient production, increases in local demand, logistics and supply chain, competition, lack of institutions to support internationalization and the general business environment.

The overall findings show that company, product, export market, macro environment and industry related challenges all affect the internationalization activities of the Ethiopian SMEs.

Keywords: Internationalizations, Internationalization process, Internationalization challenges, Internationalization reasons, SMEs, Ethiopia.

CONTENTS

1 INTRODUCTION	1
1.1 Background of the study	1
1.2 Objective and research problem	3
1.3 Outline of the research.....	4
1.4 Definitions	5
1.4.1 Small and medium size enterprises (SMEs)	5
1.4.2 Internationalization	7
1.4.3 Challenges.....	8
1.5 Limitations.....	8
2 INTERNATIONALIZATION PROCESS.....	10
2.1 Reasons for internationalizations	12
2.1.1 Proactive reasons	13
2.1.2 Reactive reasons.....	15
2.2 Internationalization theories focusing on SMEs.....	17
2.2.1 Incremental stage models of internationalization	17
2.2.2 Innovation- related models (I-models).....	19
2.2.3 Network approach of internationalization	20
2.2.4 Resource – based approach to internationalization.....	22
2.2.5 International entrepreneurship	24
2.3 Internationalization challenges	25
3 EMPIRICAL STUDY	33
3.1 Validity and reliability	33
3.1.1 Reliability.....	33
3.1.2 Validity	34
3.2 Quantitative study.....	34
3.2.1 Survey as a research method.....	35
3.2.2 Implementations process.....	36
3.2.3 Population	37
3.2.4 Analysis of the questionnaires results.....	38
3.2.4.1 General information	38
3.3 Qualitative Study	67

3.3.1 Research method	68
3.3.2 The interviews.....	68
3.3.3 Analysis of the interview result	69
4. CONCLUSION AND RECOMMENDATIONS.....	79
4.1 Summary and finding of the research.....	79
4.2 Recommendations	81
4.3 Suggestions for future research	83
REFERENCES.....	84
APPENDICES	90
Appendix 1	90

LIST OF FIGURES AND TABLES

Figure 1 The basic Mechanism of internationalization State and Change aspects	18
Figure 2 Company size by employees.....	39
Figure 3 Annual revenue of the companies	40
Figure 4 Companies years of establishment	41
Figure 5 SMEs involvement in international business	42
Figure 6 SMEs classification by their sector.....	43
Figure 7 Best Geographic market of SMEs	44
Figure 8 Company related challenges of SMEs.....	47
Figure 9 Company related challenges of small Companies.....	48
Figure 10 Company related challenges of medium companies.....	49
Figure 11 Product related challenges of SMEs	50
Figure 12 Product related challenges of small companies.....	51
Figure 13 Product related challenges of medium companies.....	52
Figure 14 Industry related challenges of SMEs	54
Figure 15 Industry related challenges of small companies.....	55
Figure 16 Industry related challenges of medium companies.....	56
Figure 17 Export market related challenges of SMEs.....	58
Figure 18 Export market related challenges of small companies	59
Figure 19 Export market related challenges of medium companies	60
Figure 20 Macro environment related challenges of SMEs	63
Figure 21 Macro environment challenges of small companies	64
Figure 22 Macro environment challenges of medium companies	65

LIST OF TABLES

Table 1.SMEs definition of European Union.....	5
Table 2 Ethiopian classification of micro and small firms.....	6
Table 3. Motives of internationalization from Czinkota	13
Table 4. A review of innovation- related internationalization models.....	20
Table 5 .Top five identified challenges from the questionnaires	66
Table 6. Internationalization challenges of Ethiopian SMEs in different stages of the internationalization phase.....	73

LIST OF APPENDICES

APPENDIX 1. Questionnaire in English

1 INTRODUCTION

The aim of this thesis will be to find out the challenges of internationalization from the Ethiopian small to medium size enterprises (SMEs) point of view and provide possible suggestions as to how those challenges can be minimized in their internationalization activity.

There are quite many SMEs in Ethiopia. However, the degree of internationalization and their involvement in the international market is not up to the expectations and prevents the country from generating much foreign exchange every year (MOFED, GTP, 2010). The country's economy is highly dependent on agricultural products which accounted for 47% of the GDP by sector (CIA, 2013). In 2013 the country's GDP was reported as \$46.47 Billion (World Bank, 2013) the total export was accounted for \$2,591 Billion (Ethiopia Customs and Revenue Authority). According to the CIA report, the export of goods and service was reported as 11.5% of GDP composition by the end use.

The outcome of this thesis is expected to help Ethiopian SMEs in their internationalization activities by investigating the potential challenges for internationalization and providing the necessary remedial actions and suggesting possible solutions for the concerned bodies.

1.1 Background of the study

Small and medium size enterprises play a crucial role for the advancement of the world economy. Many countries tries to enhance the internationalization activity of SMEs in order to increase the economic growth, reduce unemployment and to create potential mini-MNEs in the future. (Ruzzier, Hisrich & Antoncic, 2006). More than 20 million SMEs in the European Union represents 99% of the businesses, and they are the key drivers for economic growth, innovation, employment and social integration (EU, 2014).

Internationalization of the firms has become one of the most studied areas of research recently in the area of international business studies (Keupp & Gassmaan

2009). The main focus of the research area is the issues that relate to the internationalization of SMEs in the different parts of the world (Coviello & McAulley 1999; Coviello & Jones, 2004). According to Ducuing & Gallo (2010), internationalization is one of the activities that most companies face at some point to be competent in their business area. In order to be successful, companies have to adjust their operations from the domestic level to the international level by focusing on global mergers, acquisitions and to expanding markets over different territories.

According to European Commission, the internationalization of SMEs provides positive effects both for the SMEs as well as the involved economies. The turnover growth of those active SMEs is considered to be high and their contribution of employment development is considerable. In addition, the relationship between innovation and internationalization among internationally active SMEs is stronger (European Union 2014). This reveals that involving in to the international market is considered as the best strategy for SMEs.

Going to international market needs thorough planning and strategy. Companies should adapt their internationalization strategy to be successful in their target market. The domestic market strategy may not be applicable in the international market. The traditional source of strength in the domestic market becomes the primary source of weakness when attempting to compete in the foreign markets if a company is not ready strategically (Lloyd-Reason & Mughan, 2002). So, therefore SMEs need to reorganize and plan for their international market involvement. There may even be a need to organize a new department which is responsible for international level involvement.

The focus area of this thesis is small and medium size enterprises due to the fact that these firms are facing different challenges than larger sized enterprises in relation to internationalization. As the larger enterprises may have experience in the internationalization process, they can adjust their involvement based on the previous experiences. But, as SMEs lack knowledge and experience the challenges for the internationalization of small to medium size enterprises is much bigger than that of large companies (Leonidou, 2004, OECD, 2009).

There are quite many factors that should be considered when becoming involved in the international markets. The challenges may vary from one company to another. In this thesis the literature review in relation to the internationalization challenges of SMEs will be discussed in section 2.3 and the identified Ethiopian SMEs challenges along with the recommended solutions for the identified challenges will be discussed in sections 4.1 and 4.2 respectively.

1.2 Objective and research problem

The aim of this research is to examine the internationalization challenges of Ethiopian SMEs using the earlier research findings of internationalization challenges of the SMEs in the developing countries and provide suggestions to minimize the challenges to help Ethiopian SMEs in their internationalization activities. In addition, the detailed internationalization process and the related literature reviews in relation to the thesis topic will be discussed for a better understanding of the concept of internationalization. The reasons for internationalization will also be discussed to show directions for Ethiopian SMEs for a better performance in their internationalization process.

The thesis is intended to give a wider perspective of the internationalization process and investigate the detail challenges of internationalization. Selected related literature will be discussed in connection with internationalization challenges in different perspectives. Furthermore, based on the existing similar internationalization challenges a theoretical frame work for investigating the challenges of Ethiopian SMEs will be designed and a questionnaire based on the selected benchmarking theory will be prepared and the potential internationalization challenges will be identified. Based on the findings a detailed discussion as well as possible solutions will be forwarded for further research.

This thesis focuses on internationalization challenges of Ethiopian small and medium size enterprises, so therefore the research is not going to treat domestic problems in relation to legal issues and regulations that may be considered as general business problems in Ethiopia.

1.3 Outline of the research

This thesis will include both the theoretical as well as empirical studies. The theoretical study mainly focuses on the internationalization process, internationalization theories focusing on SMEs and internationalization challenges of SMEs in a wider perspective. The empirical parts of the research will mainly focus on the qualitative and quantitative aspect of the research.

The first chapter of the research focuses on the introduction to show what is going to be researched and help the readers to gain a clear picture of the thesis. In addition the structure of the thesis in which how it is going to be organized and the detailed objective of the research are discussed. Furthermore, the limitations of the research as well as the wider objective of the research and its importance are covered under this chapter.

As the concept of SMEs and internationalization has a wider spectrum, an introduction to the concepts will be provided before the actual theoretical study to offer a clear picture in literature review in the coming chapters.

The second chapter focuses on the main topic of the research area it mainly handles the internationalization processes. As the concept of internationalization is wide there will be sub categories for the concepts so that the overall processes of internationalization will be easily understandable.

Different companies have a variety of reasons to enter the international markets so therefore the reasons why to enter the international markets will also be discussed. Moreover, detailed internationalization theories focusing on SMEs will be examined thoroughly along with challenges of internationalization from different authors' perspectives to gain a wider understanding as well as to have a working theory for the thesis in line with the prior existing related findings of the concept.

The third chapter mainly focuses on the empirical study by focusing on quantitative as well as qualitative research. Quantitative research will be conducted based on the questionnaire which is going to be mailed to selected Ethiopian SMEs. Also, the qualitative research will be conducted using interviews. The interview will

be made among selected company managers and concerned personals who can provide valuable responses for the desired questions. The interview will discuss the detailed and actual problems which are faced by those target companies and help to provide a wider discussion on the internationalization challenges of Ethiopian SMEs.

The fourth chapter will be a concluding chapter for the research. The overall finding of the research will be discussed as well as possible suggestions for further research will be provided. Of course, the research validity and reliability will also be proved.

1.4 Definitions

Defining the basic concepts of the thesis focus area will help in reaching a better understanding of the whole idea in the research process. Accordingly the following three concepts will be explained in detail to familiarize the reader with the terms before the actual literature review of the concepts is provided. This helps to avoid misunderstandings of the terms used.

1.4.1 Small and medium size enterprises (SMEs)

SMEs can be defined in different ways from different authors' perspectives. A variety of aspects can be considered to classify a given business organization whether an SME or not. According to European Commission classification, SMEs are defined as those companies which have a total number of workers less than 250 and their annual turnover is less than or equal to 2 million Euros with a balance sheet total of no more than 43million Euros (EU commission 2014).

Table 1.SMEs definition of European Union

Company category	Employees	Turnover or	Balance sheet total
Medium - sized	< 250	≤ €50 m	≤ € 43 m
Small	< 50	≤ €10 m	≤ € 10 m
Micro	< 10	≤ €2 m	≤ € 2 m

However, as mentioned earlier the definition of the term may vary from country to country, for instance from the Ethiopian point of view SMEs can be classified as follows:

According to Ethiopian commercial code micro enterprise or small enterprises are defined as business which engage in commercial activity other than technological and consultancy services (Regulations No. 33/1998).

The classification of Ethiopian SMEs is based on number of employees and total assets of the enterprise. Accordingly a micro enterprise is classified as an enterprise which has a total number of not greater than 5 workers including the owner and the total assets are less than or equal to 100000 ETB (\$5000) for the industrial sector and less than or equal to 50000 ETB (\$2500) for the service sector. Similarly, a company which has a 6-30 employees with total asset of ranging 100,001-1,500,000 ETB (\$5001-\$75,000) for the industrial sector and 50,001-500,000 ETB (\$2500-25000) for the service sector are considers as small enterprises (Regulation No- 201/2011). Although the government is paying attention to those small and micro level enterprises, the scope of this research will go to the middle level enterprises as well as these companies are the actual participants of the international trade and the real internationalization challenges are experienced by such enterprises. For the middle size enterprises the definition given by the European Union will be applied.

Table 2 Ethiopian classification of micro and small firms

Company category	Sector	Employees	Capital
Micro company	Service	≤5	≤\$2500 or ≤ 50,000,00 ETB
	Industry	≤5	≤\$5000 or ≤ 100,000,00 ETB
Small company	Service	6-30	\$2500 – \$25,000,00 or 50,001ETB -500,000,00 ETB
	Industry	6-30	\$5001 - \$75,000,00 or 100,001,00ETB–1,500,000,00 ETB

Adapted from Ethiopian Trade regulation No 201/201 *Ethiopian Birr (ETB)*

According to the Ethiopian growth and transformation plan (GTP, 2010), creating a conducive environment for the industry plays a favorable role for the economy. As the country is facing foreign exchange constraints, the industrial sectors are encouraged to focus on export orientation and substituting import related products in the economy. It was planned that the government gives much attention for micro and small- scale manufacturing enterprises because they are the foundation for the establishment and expansion of medium and large industries. However, the support from the government for the establishment and expansion of medium scale industry is also provided. The assumption behind this is that these middle size enterprises help with technological transfer, the link between the micro and small enterprises, and improve the competitiveness of domestic resource based large-scale industries. These middle size enterprises help the domestic market as well as produce value-added products for the export market (MOFED, GTP, 2010).

1.4.2 Internationalization

The concept of internationalization is used and discussed widely. However, it is often not clearly defined so that different authors give a variety of definitions for the concept. It is important to clarify the concept of internationalization to have a common understanding of the concept before the detailed theoretical discussion about internationalization process and theories related to SMEs internationalization activities. Accordingly, the term internationalization is used roughly to describe the outward movement in an individual firm or a large grouping of international operations. This concept leads to having a border definition as the process of increasing involvement in international operations both inward and outward movement in international trade (Welch and Luostarinen, 1988).

Further, internationalization was defined by (Calof & Beamish, 1995), as the process of adapting a firm's operations in relation to strategy, structure, resources etc. to the international environment. Internationalization is also defined as the synonym for the geographic expansion of economic activity over a national country's border. Firms by involving outside their domestic market, can develop their net-

works' and become competent in the international market and this can enhance their profitability. (Gjellerup 2000).

From the perspective of relationship and process, internationalization is defined as the cumulative process in which relationships are continuously established, developed, maintained and dissolved for the successful achievement of the objective of the firm (Johanson and Vahlne, 1990). In addition the concept of internationalization from the dimensions of relationship, a firm's operating process in the international environment defined as internationalization is the relationship between the firm and its international environment in the development and utilization process of various international activities basically inward, outward and cooperative operations (Lehtinen and Penttinen, 1999). Finally, Ahokangas (1998) defined internationalization "as the process of mobilizing, accumulating and developing resource stocks for international activities".

Having put a working definition of the concept of internationalization, the detail internationalization theories and internationalization challenges of SMEs will be discussed under the theoretical framework of the thesis.

1.4.3 Challenges

The concept of challenge in this thesis refers to the obstacles which hinders Ethiopian SMEs from becoming involved to international market or minimizes their internationalization activities. Different factors can be mentioned as a challenge, however, the detailed previous research in relation to internationalization challenges of SMEs will be discussed in a separate section and the final research findings related to Ethiopian SMEs challenges will be provided at the end of the thesis.

1.5 Limitations

This research is limited to those SMEs which are found in Addis Ababa, the capital city of Ethiopia only. Due to time constraint the research is not considering other SMEs outside Addis Ababa. The assumption is that the majority of exporting SMEs are found in Addis Ababa. Furthermore, this research does not focus on

local challenges of trade and the general business environment. Finally, as I am living in Finland when working on this thesis, both the questionnaires as well as the interviews will be responded to virtually.

2 INTERNATIONALIZATION PROCESS

Internationalization of SMEs becoming an important research topic during the recent decades, previously much attention was given for the internationalization activity of the multinational companies. The need for SMEs internationalization is increasing because these firms are beneficial for the local economics. SMEs creates more new jobs, open new market sectors, developed new product and service, and subsequently generate potentially a multinational corporation (Kontinen and Ojala, 2010).

Internationalization is usually used when discussing about the changes in the modern time, it has a link with economic, social and political issues and affects the surrounding environment. The trend of the economy is shifting from the domestic market oriented economy to the global market economy. In order to be successful, companies need to look beyond their domestic market and focus on opportunities in the international market. Due to globalization, the domestic market has lost its importance to some extent and market abroad is considered to be much more important in the future (Morrison 2011).

In order to apply the concept of internationalization a number of considerable factors should be taken in to account. For instance, how can the degree of internationalization of one firm be assessed or what does the concept of internationalization means in relation to the outcome, assessing the degree of foreign sales relative to total sales. Though these measures are attractive due to their simplicity and measurability, they provide very little information about the nature and capacity of SMEs to conduct international operations. Apart from diversity of international operation, type of market, degree of commitment and type of international offering, there is clearly a need for a broader frame work for evaluating to what extent companies enhance their international involvements using different dimensions (Welch and Luostarinen, 1988).

The first dimension to take into consideration is the operation method. When the involvement of companies in internationalization activity will increase, their method of serving the foreign market will change considerably. According to the

Nordic studies the changes occurs in the direction of increasing commitment, a typical pattern from no exporting to exporting via an agent, to a sales subsidiaries and finally to a production subsidiary. The reason to focus on the operating method of the firms is that it gives a clear understanding of the overall process (Welch and Luostarinen, 1988).

The dimension of operation methods help to expect internationalizing to be reflected both on diversity and depth of operation methods. From the global point of view, there is evidence that it is not only a growth of foreign investments but the counter trade increase in various aspects of the technology trade, franchising, contract manufacturing etc... It will be difficult to go far enough in the internationalization activity simply by using one preferred operational method (Buckley and Ghauri, 1999).

The second dimension is what to provide to the market. When the involvement of the company in international operations increases, the tendency in which the offerings and variety of the items will deepen. This happens in two different levels. First the company may expand within the existing, or into new product line. Secondly the whole product concept may be changed to incorporate different components such as service, technology, know-how or some combinations.

Third dimension is the target market where by the company focuses its internationalization. It will be difficult to internationalize by focusing only limited countries. The expanded operation and offerings increasingly link with a wider range of foreign market in terms of political, cultural, economic and physical terms over time. At the early stage of internationalization the tendency in which companies approach markets which are appear to be simpler ,less costly and more familiar to penetrate and these countries usually are those most commonly which are closer both in terms of physical and cultural aspects. So when companies are engaging in distant location the degree of internationalization is considered as a maturity stage (Welch and Luostarinen, 1988).

The fourth dimension for the success of internationalization depends on the type of people who are involving in the internationalization process from the initiation and undertaking various activities. During the initial phase of internationalization the background of the decision maker in the areas such as work and foreign experience, education and language training plays a curtail role for the internationalization success. However, learning by doing seems to be part of the whole process, it is possible to get assistance through effective training and recruitment policies. The international awareness of the people results for a better performance so that international development becomes a prime indication of internal extent to which a company has become internationalized (Welch and Luostarinen, 1988).

The fifth dimension is the organization structure in which the readiness both in the administrative and organizational demands for the growth and diversified international operations. Different approaches both formal and informal arrangements to cope up with the increasing amount and complexity of internationalization has been made in different countries perspective. The changes and their sophistications as the company seeks to improve the organization mechanism and focus of internationalization operations, provides a further signpost of the state of internationalization (Welch and Luostarinen, 1988).

The sixth dimension is the availability of the finance to support the internationalization activity of the companies. The nature and extent of the companies financing activities for international operation provides further indication of the degree of internationalization. The available range of financial support both from the local and international and the supporting techniques will develop with the international growth. But the relationship depends on the nature of the product/service, operation method of the company, payment method and the extent of the government support (Welch and Luostarinen, 1988).

2.1 Reasons for internationalizations

The internationalizations reasons of one company may be different from the other. There are a number of factors that initiate a given company to go to international market. These factors may originate from either the companies inside strategic

point of view or to respond to the changing business environment and to compete internationally and maintain profitability. These factors were described as Proactive and Reactive reasons of internationalization (Czinkota, 2004). Moreover Albaum, Duerr, and Strandkov, 2005 discussed that as companies have different internationalization motives, they classify these motives as the primary motives and the other as secondary motives. It is when the primary motives of internationalization is achieved that a firm look for the secondary internationalization motives. Because the proactive and reactive motives can be a generalized concept, the detailed discussion of these factors will be given as follows.

Table 3. Motives of internationalization from Czinkota

Proactive motive	Reactive motive
<ul style="list-style-type: none"> ➤ Profit and growth goals ➤ Technology competence /unique products ➤ Managerial urge ➤ Foreign market opportunities/market information ➤ Economics of scale ➤ Tax benefits 	<ul style="list-style-type: none"> ➤ Unsolicited foreign orders ➤ Competitive pressures ➤ Domestic market: small or saturated ➤ Extend sales of seasonal products ➤ Overproduction/excess capacity ➤ Proximity in international customer/psychological distance

Source, Czinkota (2004)

2.1.1 Proactive reasons

The majority of small and medium size enterprises are looking for growth in terms of revenue and profit. The need for finding and acquiring new customers is a crucial factor due to their small organizational size. The need for new customers may originate both from domestic and international market. However, new markets are the key aspects for generating growth for such companies. Focusing on countries which are growing fast in terms of GDP and population is considered as an attractive market for companies that needs their market expansion (World Bank, 2013).

The other aspect of proactive factor relates to the availability of unique product, technological advantages or similar distinguishing factor which is not available in many part of the world. It can help as factor for internationalization. Having market related information about the country in focus can help to go further in to the internationalization process. By focusing on international market and producing for both domestic and international market, companies can minimize their cost of production to achieve economies of scale (Hollensen 2004). Furthermore, the technological competence level or unique product, innovation capability, of the companies can be considered as a key driver for their internationalization and this enhance the company's competitive advantage in the international market (OECD, 2009).

The other key factor for the internationalization of Small and medium size enterprise depends on the management urge and motivation. Having a competitive product as well as technologically competent organization may not be successful without the appropriate managerial capability in international activities. The commitment level of the management and the knowledge required for internationalization process is among the factors that needs special attention for internationalization success (Czinkota et al., 2005). The strategic decision are made at the management level so that, if the person in charge has an international exposure and adequate knowledge in the area of international expansion, the success rate of the internationalization activity of the company will be higher. The internationalization can be a management driven so that the risk that is incorporated in relation to the internationalization process related to the knowledge and capability of the manager (OECD, 2009).

The other factor is the economies of scale that is generated from the involvement of international business. Small and medium size enterprises by serving a domestic market, they are generating low economics of scale. However, by involving in internationalization activities, firms can enhance their economics of scale. The economics of scale which is generated by international expansion of business is providing a wider opportunity to bring about a competitive advantage due to the fact that, the price per production unit can be lowered significantly because of the

benefit that can be obtained from purchasing, production and service will have a considerable importance (Hollensen, 2011).

The last aspect of proactive reason of internationalization is the tax benefit that can help internationalization of firms. Based on the nature of operation and involvements both local and foreign governments provides tax benefits for the facilitation of internationalization. The tax benefits will have a major impact on the competitiveness of the companies (Hollenson, 2004).

The degree of internationalization on those SMEs which have a proactive organization culture is found to be more effective and successful. This SMEs are risk taking and innovative. This allows them to take the initiative of internationalization, anticipating and perusing new opportunities and participating in foreign market (Freeman, Edward & Schroder, 2006). Furthermore, the previous experience of the manager has a positive impact on internationalization. Those managers, who are studied, worked and travelled abroad and participated in different trade organizations, are much more international oriented than others (Hollensen 2011). This previous international exposure is a valuable resource for the company so that, their contribution for the internationalization of the company is of much importance (Antoncic et al., 2007).

2.1.2 Reactive reasons

There are a variety of ways in which a given company involves in to international activities based on the reactive reasons. It is common that companies are looking for international customer to participate in to international market. However, this may not the case all the time. There will be a tendency that a company may receive unsolicited order from foreign customer. The customer may get information about the company's product and service so that an order for the items is generated. The company may not be ready for international activity, but due to the order the need for internationalization may arise accordingly. The common problem in relation to unsolicited orders might be that the importing company may involve in to internationalizing as its own business due to the international demand for the

product. The other possibility is that the company may not be able to receive the order so that it frustrates the company not to involve into internationalization and leads to focus on domestic market and results to have a mentality that internationalization is something which cannot be achievable (Hollensen, 2011).

The competition among companies in the domestic market is considered as the main reason for reactive reason for internationalization. The company may lose its market share domestically so that the need for internationalization will arise to be competitive in international market. In addition the overproduction problem can also be solved by widening the distribution to foreign markets and this enhances the fixed cost to be evenly dividing (Czinkota, et al 2005). The other aspect of competition is the saturation of the market in the domestic environment. In times when the domestic market is facing problems in relation to either economic or competition problem, it will lead to have an internationalizing motive to minimize the output gap. The domestic involvement may have underutilization of production capacity so that the international market will help to compensate the gap which is made due to the competition and domestic saturation (OECD, 2009).

The other aspect of reactive reason of internationalization is the proximity to international customer. It was stated that the importance of proximity plays a vital role for internationalization activity, specifically Czinkota Et al 2005, put that being close to the customer and port is an important factor. The more the distance from the customer is the higher the risk and uncertainties, however if the distance from the customer is close, the perceived uncertainty will minimize. This may arise due to the fact that neighboring countries share familiarity of culture, habits, language and business practices so that the risk is considered to be lower. So it is common to see the flow of international trade is much stronger among neighboring countries (Hollensen, 2011). In addition, Kotinen and Ojala (2010) find out that psychic distances are one of the contributing factors for SMEs internationalization. They state that firms start to operate by those countries which have similarities with them and later they move on to other part of the world to pursue their internationalization activity.

2.2 Internationalization theories focusing on SMEs

Internationalization theories help to elaborate how and the reason that a firm engage in international activities and in more details aspect it help to react to the dynamic nature of the business environment (Morgan & Katsikeas, 1997). There are different theories and approach that can be discussed in relation to the concept of internationalization. However, in this thesis the focus of the researcher will be on those theoretical aspects which focus on SMEs internationalization activities. Accordingly, the selected theoretical frame works will be discussed in the following parts.

2.2.1 Incremental stage models of internationalization

The incremental stage model of internationalization is one of the widely used concepts of internationalization. This approach can be associated with the Uppsala model of internationalization (Andersen, 1993). The Uppsala model of internationalization explains that firms gradually acquire, integrate and use knowledge about foreign market and operation. It is a stage mode approach where by firms goes to international market through a serious of steps. This approach has two dimensions in which a firm increases the involvement in foreign country and successively establishes an operation in the new country. It is believed that internationalization is a cumulative effect of incremental decisions (Johnson and Vahlne, 1977).

The model was developed based on an observation and studies at University of Uppsala. Accordingly, it was found out that Swedish firms develop internationalization activity in a small steps then engaging in large foreign production investments. Commonly companies start their exporting through an agent, and then establish a sales subsidiary and finally the production facilities in the host country will be developed (Johnson and Vahlne, 1977). This shows that companies are assumed to start their internationalization step by step from a low risk and low resource commitment entry mode by adapting an indirect method like export agent to utilize high risk and high resource commitment entry mode such as man-

ufacturing in the foreign market. It is also find out that companies prefer to start their internationalization activity from those countries which are psychically near to them and later they move to those countries which are located far away from the home country of the exporting company (Johnson & Widersheim 1975, Johnson & Vahlne, 1977).

According to this model, there are two aspects that should be taken in to consideration. The state aspect implies the resources commitments that firms have on foreign market. To what extent the firm is committed and knowledgeable about the foreign market. The Change aspects refer to the commitment to decisions on resource and performance of current activities (Johnson and Vahlne, 1977). After experiencing the nearby country market, firms will increase their international involvement to psychically distant countries which have different language, education and business practice (Ruzzier, et al 2006).

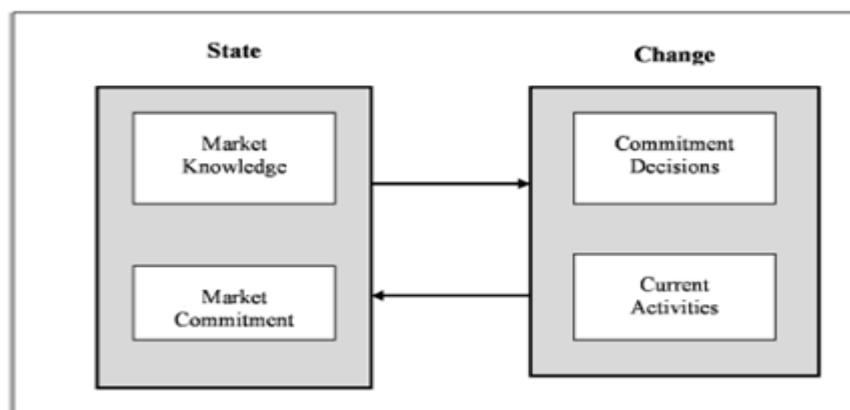


Figure 1 The basic Mechanism of internationalization State and Change aspects (source: Johanson & Vahlne.1977:26)

According to the Nordic approach to internationalization, considering the motivation of the firms to involve in their internationalization activity, Welch and Luostarinen (1988) states that the performance to engage in international operation is limited by the availability of the resource which is available for the company. Specifically, resources available for smaller firms is the major reasons as to why they exhibit a lower commitment entry mode may be applied at the beginning and later a higher commitment entry mode can be applied. Furthermore, the availabil-

ity of resource both physical and financial is the influential factor in the internationalization activity of the firms. The other aspect which was identified focus on the appropriate knowledge about the internationalization process and knowledge about the market that the firm is planning to move. The concept of appropriate knowledge includes, knowledge about the foreign market, foreign operation techniques, how to do business in foreign market and about people in business activities.

2.2.2 Innovation- related models (I-models)

Innovation related model is other aspect of stage model of internationalization. The stages which are undertaking by the firms are considered as innovation for the firm (Ruzzier et al., 2006). According to the study by Bilkey and Teser (1977) to investigate the export behavior of SMEs they come up with six different stages for export development of firms.

The first stage refers to a stage in which management is not interested in exporting and unwilling to fill unsolicited export order. The second stage of innovation model consists of management that can be willing to fill unsolicited export order, however they are not actively explore export opportunities. The third stage refers to stage that comprises management which are proactive and explore export opportunities. The fourth stage consists of companies which are exporting to nearby countries in an experimental basis. The fifth stage consists of firms which are experienced in exporting to experimental countries. The sixth stage consists of managements which are exploring to export opportunities to countries which are psychologically distant to each other.

According to this model, the experience and knowledge of the management will support the company to involve in international activity. The participation and involvement of the firms in the international activity can be considered as innovation performance for the firm. The international involvement and commitment differ from one company to another however; the commitment for internationalization increases through time. Some companies may leap quickly from one step of

the process to the other while others hold the activity through a step by step approach (Collinson and Houlden, 2005).

The Uppsala and innovation related model have been used for the internationalization purpose of Small firms. However, large firms with the intention of developing and participation of internationalization activity used the concepts widely. The major aspect of these models lies on the incremental nature of the internationalization process both from the perspective of activities and resource for internationalization. As these models have been used widely in internationalization research, similar models with different perspectives are found in the internationalization literature (Ruzzier et al., 2006). A summary of different approach is presented below for a better understanding of the concept.

Table 4.A Review of innovation- related internationalization models

	Bilkey and Tesar (1997)	Cavusgil (1980)	Reid (1981)	Czinkota (1982)
Stage 1	Management is not interested in exporting	Domestic marketing: The firm sells only to the home markets	Export awareness: Problem of opportunity recognition, arousal of need.	The completely uninterested firm
Stage 2	Management is willing to fill unsolicited order, but makes no effort to explore the feasibility of active exporting	Pre-export stage: The firm searches for information and evaluates the feasibility of undertaking exporting	Export intention: Motivation, attitude, beliefs, and expectancy about export	The partially interested firm
Stage 3	Management actively explores the feasibility of active exporting	Experimental involvement: The firm starts exporting on a limited basis to some psychologically close country	Export trial: Personal experience from limited exporting	The exploring firm
Stage 4	The firm exports on an experimental basis to some psychologically close country	Active involvement: Exporting to more new countries; direct Exporting, increase in sales volume	Export evaluation: Results from engaging in exporting	The experimental firm
Stage 5	The firm is an experienced exporter	Committed involvement: Management constantly makes choices in allocating limited resources between domestic and foreign markets	Export acceptance: Adopting of exporting/rejection of exporting	The experienced small exporter
Stage 6	Management explores the feasibility of exporting to other more psychologically distant countries			The experienced large exporter

Source: Andersen (1993)

2.2.3 Network approach of internationalization

The network model gives an option to the internationalization process of companies. The importance of social capital plays a great role for firms' involvement in

international market. Through network companies can receive enquires from foreign market and this enhance trust and develop internationalization. It has a better advantage than stage model as the process go smoothly. According to the network model, the involvement and support of countries Chamber of commerce plays a great role to meet objective in the international market (David D, and Mark F, 2003).

The network approach of internationalization has been utilized to discuss the internationalization of SMEs. The approach focuses on non-hierarchical system in which companies invest to develop their position in international network (Johanson and Mattson, 1988). It also further explained that using the network approach firms establish and develop their position in relation to their counter parts in the foreign market (Johanson and Mattson, 1988).

The network perspective is based on the theories of social exchange and resource dependency. The focus is on the behavior of firms in the context of network of inter-organizational interpersonal relationship. The relation may involve customers, suppliers, competitors, private and public agencies, family, friend and other (Coviello and McAuley, 1999). So SMEs that wish to internationalize abroad may develop their business network and use the existing network. Furthermore Rundh (2006), put as network involves sets of various interconnected relationships which favor a better business exchange among the parties which are involved in the relationship. This leads to say that the markets are a combination effect of the system and transactional relationship between customers, supplies, competitors and other participating stakeholders.

The relationship that is created by networking approach will have a positive impact on the strategic decision of the firm and the resource exchange among the contracting parties will increase (Rundh, 2006). The value of the relationship outweighs the transaction and the opportunist behavior minimized considerably. In addition, Johanson and Mattson, (1988) states that the success of a firm in internationalization process highly depends on the nature of relationship with in the market and its position in the network than the cultural characteristics. Furthermore

they argue that the more the internationalization of the firm will lead to have increased number of relationship and the stronger the bond among the contracting parties will be. Johanson and Vahlne (1990), states that internationalization is a gradual process which emerges from the interaction of the contracting parties and the relationship is developed through time. The network approach goes beyond the incremental internationalization model due to the fact that a company's strategy develops as a behavioral pattern which is highly influenced by the networking relationships. Networking approach mainly focuses on the business network's relationship and the market knowledge (Rundh, 2006). Finally, Ruzzier et al., (2006) states that the engagement of the firm in networking activity help internationalization process, but the required resources and strategies towards development needs further studies. In a recent study on the relationship of networking and internationalization in Ethiopian SMEs Rietvelt & Goedegebuure (2014) found out that networking plays a critical role for the internationalization activity of Ethiopian SMEs. However, the study shows that the companies do not use appropriate market research rather a reactive approach to internationalization is applied. The networking relationship between foreign country government and export organization has a big impact at the early stage of the contact relation Rietvelt & Goedegebuure (2014).

2.2.4 Resource – based approach to internationalization

The resource based approach of internationalization is another aspect of internationalization modes. The internationalization of the firms is based on the firm's strategy which includes the firm's resources. The resource based theory incorporates the firm's distinctive competencies for internationalization (Andersen & Kheam, 1998). The resource of the firm can be defined as those assets which can be both tangible and intangible, organizational processes, capabilities, firm attributes, information, knowledge and other related which can be controlled by the firm that enables the firm to engage and implement strategies which can improve the firms effectiveness and efficiency in the internationalization activity (Barney,1991). The resource of the firm as Barney 1991, elaborates can include the brand names, employment of skilled manpower, in-house knowledge and technol-

ogy, machinery, trade contacts, efficient procedure, capital and related factors. It was stated that the most widely mentioned indicator of the potential of the firm resource to generate sustainable competitive advantage are the value, rareness, imitability, and sustainability.

According to the resource based approach, a firm is a collection of interrelated resources and resource conversion activities are taking place. It shows that each and every firm is unique and the uniqueness originates from the resource it possesses, the compatibility of the resources with one another, and also the way the resources are deployed throughout the firm. In addition, the uniqueness is relatively difficult to acquire the same type of resource from another firm (Barney.1991).

A single resource of an organization may not have value in isolation. The value is realized when it is used with other resources. These combinations of firm's resource are considered as capabilities of the firm (Fitzroy, Hulbert, and Ghobadian, 2012). Ruzzier et al 2006, further states that the resource based approach to internationalization as a new perspective of internationalization; it focuses on sustainable and unique costly-to-copy attribute of the firm as the source of economic rents. It provides a fundamental drives of the performance and sustainable competitive advantage needed for internationalization.

The resource based model gives attention to the importance of intangible knowledge-based resource to bring about competitive advantage. The concept focuses not only ownership of resources but as to how the available resources will be utilized to develop new resources. However, as there are a variety of SMEs the critical resources for firm's internationalization may not be easily identified (Ruzzier et al., 2006).

The firm specific resources are central for the existence of the resource based approach because each firm is unique by its possession and deployment firm specific resources. From the discussion of the resource based approach the firm specific resources cover a wider domain in which the firm can develop competitive advantage. These resources may be the potential source for competitive advantage

(Sharma & Erramilli, 2004). Finally, as stated in (Sharma & Erramilli, 2004) it is possible that some of the firm specific resources may need a partner's resources before generating a competitive advantage for the firm in a host country. "In sum, the resource base approach empowers the explanation of entry modes choice based not only upon the exploitation of existing advantage but also those deployed for the generation of new advantage"(Sharma & Erramilli, 2004).

2.2.5 International entrepreneurship

International entrepreneurship according to (McDougal, 1989) is the development of international new ventures or start-ups that form their inception, engage in international business. The wider and broader definition given by (McDougal and Oviatt, 2005,) is "International entrepreneurship is the discovery, enactment, evaluation and exploitation of opportunities across national boundaries to create future good and service." In addition born global and international new ventures are among the names given for international entrepreneurship.

Most of the academic literature focused on the understanding of exports by small firms, public policy concerning it and comparison of entrepreneurship in multi countries and gave less opportunity to contribute something unique (Oviatt et al, 2005).

International entrepreneurship can be distinguished as a research approach to internationalization of SMEs from the entrepreneurial perspective that integrates the possible relevant approaches to internationalization with entrepreneurship as a composite part of SMEs internationalization (Ruzzier, et al., 2006).

The international entrepreneurship research challenged most of the theories of internationalization. International Entrepreneurship is one of the research areas that intersect international business and Entrepreneurship theory (Andersson, 2004). As most of the firms internationalize incrementally (Johanson & Vahlne, 1977), others more dynamic and newly established firms are becoming international at their foundation or shortly after their foundation (Rialp, Rialp & Knight, 2005). These types of firms are referred as international new ventures (Oviatt & McDou-

gal, 1994). These firms further defined as a business organizations whereby from the very beginning looking to get a significant competitive advantage by applying their resources and selling and delivering their outputs in multiple international markets. This involvement of internationalization is contrary to what has been said by incremental mode of internationalization. It is important to consider that the concept of international entrepreneurship is applicable for both small to medium size enterprises and large companies to look for opportunities and recognizing the opportunity in cross-border business (Oviatt & McDougal, 2005).

2.3 Internationalization challenges

The concept of internationalization challenges were defined as structural, operational, attitudinal and related constraints that hamper the firm's capacity to involve and start operation or expand export operations (Leonidou, 1994b, cited by Morgan, 1997). Internationalization challenges can be faced at any phase of internationalization processes it may start at the stage of the pre-export, initial stage or during the extensive stage of the internationalization activity. But the nature and the tendency of the challenges may vary from stage to stage accordingly (Bilkey, 1978). Furthermore Arteaga-Ortiz & Fernandez-Ortiz (2010), states that challenges are anything which hinders internationalization either from internal or external factors that can block or discourage the firm's involvement in internationalization or minimizes its potential of internationalization activity.

Internationalization and international entrepreneurship is becoming one of the very important topic among Small and medium size enterprises (OECD, 2009). In this sub topic the major internationalization challenges of SMEs will be discussed from different research findings point of view and a working frame of reference for the thesis will be designed.

Different researchers in the area of international business made an investigation to find out the most challenging factors for SMEs internationalization process. According to OECD, 2009 the major internationalization challenges was categorized under four main groups. The research was made based on the top ranking method

and they come up with the following five top ten as the most challenges for internationalization these include; Shortage of working capital to finance export, identifying foreign business opportunities, limited information to locate/analyze markets, inability to contact potential overseas customer and lack of managerial time, skills and knowledge (OECD - APEC, 2007 cited by OECD, 2009).

The limitations of finance and physical resources which are related to finance have been the leading internationalization challenge of SMEs. According to OECD, 2009, such related problems were found in Canada during their internationalization start up phases. In addition lack of capital and other infrastructure related problems were found in countries such as china, Finland, India, Ireland, Russia, South Africa , Spain, Sweden and Turkey.

The knowledge about the foreign market environment is the other aspect of the finding by OECD, 2009. This was found to be the first top ten in Australia study on internationalization challenges of SME's. Most of the respondents in this research express that although we are living in the era of information and technology, finding the appropriate information about the foreign market situation is becoming a critical problem not to internationalize (OECD, 2009).

The other aspect which was identified by OECD, 2009 was the inability to contact potential oversea customer, accordingly based on the research finding by UK researchers, it was found out that the difficulty to locate enough representatives in foreign market as well as identifying the appropriate foreign market partner was found to be the main challenges not to internationalize adequately. Furthermore, the study which was made in Sweden also shows that finding the suitable channel of distribution in foreign market was one of the reasons for not internationalization (OECD, 2009).

The other research finding relates with the lack of managerial time, skill and knowledge. Several research findings suggest that the most challenges focus on the knowledge of the manager as top barrier this was identified in US and Canada. The research finding in Canada shows that the managerial risk perception and lack of international market knowledge was the most challenging factors for not inter-

nationalizing adequately. These findings were further identified as the most challenging factors in Russian, South Africa, and India (OECD, 2009).

The other study result made by Arteaga-Ortiz & Fernandez-Ortiz, 2010, states that different researchers in the area of internationalization challenges come up with different findings about the challenges. They have conducted a review on the main theoretical and empirical studies in relation to export barriers to propose classification of the barriers to apply universally in future studies in relation to internationalization challenges. Accordingly they made a research on the topic 'why don't we use the same export barriers measurements scale? By focusing on Spain SME's and they come up with a finding of four main challenges of internationalization as the base and different factors under each group were discussed.

The first finding relates to knowledge barrier it includes factors such as, lack of knowledge of potential export market, lack of staff export planning, lack of knowledge of export assistance programs, ignorance of the financial and non-financial benefits that exporting can generate, general lack of knowledge of how to export, lack of information about opportunities for their product and service abroad were the base line for knowledge base problems.

The second area of internationalization barrier is based on resource barrier that the SME's face in their internationalization activity. These problems relates to high financial cost of the methods of payments used in international operations, lack of resources to face the period of time needed to recover export-related investments, insufficient production capacity in their firm, lack of local banks with adequate international expertise, inadequate foreign network of the banks to work with were investigated for resource based barriers.

The third group of internationalization barriers were found to be procedural barriers, these include transport cost and shipping arrangements, difference in product usage in foreign markets, documentation and red tape requires for the export operation, language difference, cultural difference, tariff barriers to export, non-tariff barriers related to the standardization and homologation of the product or health

phytosanitary of similar barriers, locating a suitable distributor or distribution channels, cost of adapting the product to the foreign market and logistic difficulties were taken in to consideration.

The last internationalization groups of barriers were exogenous barriers. These include, strong overseas competition, risk from variation of exchange rates, risk of losing money by selling abroad and the political instability in destination country were mentioned. The researchers believe that these barriers can be applied universally as a base for internationalization challenges and they consider it as the first of its kind in a structured and grouped internationalization challenges.

Internationalization barriers can also be in the form of differentiation based on the customer loyalty. The availability of the customer changing demand and dynamic market considerations will have a big impact on the marketing strategy of the company. The marketing effort made by the company is highly affected by the various obstacles such as trade barriers and competitive situations are among the most. Furthermore the differentiation within the local industry also makes obstacles in the form of customer loyalty in relation to the existing products sold by the local firms highly influencing the exporting activity of the firm (Rundh, 2007).

Bilkey (1978) as cited by Neupert et al 2006, found out that lack of finance, foreign government restrictions, inadequate knowledge of foreign sales practice, inadequate distribution and lack of foreign market contacts were the most common challenges which are faced by the exporting companies. Internationalization could also be hindered by the limited resource of the SMEs and the managerial skills, language inability, physic distance and cultural differences (Neupert et al 2006).

The challenges for internationalization may vary from one country to another for instance Neupert et al 2006, found out those SMEs in transitional economy faced internationalization challenges in relation to product quality acceptance and logistics management. In comparison, SMEs from the developed economies faced challenges in relation to issues with country difference, general business risk and logistics. Furthermore Hutchinson, Fleckand Lloyd-Reason, 2009, investigates the initial barriers to internationalization by considering UK's retail SMEs and they

have found out that the most challenges for internationalization were related from both internal as well as external factors in relation to management's: lack of vision, fear of losing control, lack of knowledge, from the company point of view: transfer of retail concepts overseas, lack of resource, lack of consolidation in domestic market, and the external environment: legislation, currency, cultural difference and logistics were identified. In addition to this the support from the government for SMEs internationalization were found to be insignificant and the support is considered to be negative in general.

The involvement of firms in international market needs a great support from the concerned government bodies. However research findings show that the support from the government to promote internationalization is minimal. In a research made by Shamsuddoha, Ali, and Ndubisi (2009), to examine the effects of government assistance on internationalization of SMEs from an Asian developing nations, they have found that the government export assistance programs plays an important role by contributing a number of firm and management related factors that determine international marketing performance of the firm. In order to create and develop positive attitude towards internationalization of firms, government should provide export market information, workshops and seminars, overseas training programs on product development and marketing. However, finance and guarantee related assistances influence indirectly as they are made to provide resource support at their initial stages of export and other international activities to create their competitiveness in international market.

The internationalization barriers from the point of internal and external factors were also classified by Leonidou (2004), in which he categorizes internal barriers (those related to the exporting organization's resources, capabilities, and approach to exporting) from external barriers(barriers which are emerging from the home or host environment, including foreign rules, regulations, tariff barriers, and different customer habits). The internal barriers were further divided into informational, functional, and marketing barriers whereas the external barriers were classified as procedural, governmental, task and environmental barriers.

In their research, ‘Why don’t entrepreneurial firms internationalize more?’ Arbaugh, Camp and Cox, 2008 have found out that, the assumption which was made by Johanson and Vahlne, 1977 that firms internationalize more after their domestic market is saturated, is not generally a predictor for not internationalization. In their research they made a thorough investigation on 17 countries to check if the domestic success and the perceived internationalization risks are the major factors for not internationalization more, accordingly they found out that domestic success is not a factor for internationalization, but the perceived entry barriers specially the cultural aspect is significantly a negative predictor of internationalization. This hold true that the knowledge about the foreign market, the business culture of the country, the perceived financial and economic risks discourage firms from involving in international market.

The challenges of internationalization in terms of export marketing problems in manufacturing firms were classified by Tesfom and Lutz, (2006). They try to summarize the related literature review in the area of export problems focusing on manufacturing firms and come up with common export barriers from the developing countries point of view and suggest using as baseline to investigate the internationalization challenges of developing countries. In their research they reviewed 40 articles and come up with the major problem of SMEs exporting problem in developing countries. Accordingly, they conclude that the exporting challenges of the developing countries are interrelated and more or less similar with the developed countries. However, to summarize the finding of their research they group the results in to five major categories, the company barriers, product barriers, industry barriers, export market barriers and the macro environment barriers. Under each group there are different sub problems and factors for consideration.

The challenges of internationalization in Ethiopian point of view is not considered significantly, however, in their research Singh and Belwal (2007), by focusing on problems of women entrepreneur SMEs they found out that women entrepreneurs have a problem of finance to secure their business, lack of management and entrepreneurial skills, problem of finding market and network, limited opportunities for promotion and participation, limited amount of government and institu-

tional support, absence of technological know-how and integration mechanism, and corruption were found to be the problems. As women based SMEs are one part of the general SMEs groups, this can be considered as a previous study in the area of SMEs due to limited resource in the country specific point of view.

The research finding from Egypt SMEs point of view shows that knowledge about appropriate foreign market entry has an impact on internationalization (El-Gohary, Edwards, Eid and Huang, 2013). According to El-Gohary et al, the Egyptian SMEs face challenges in relation to the owner ,sales and marketing managers have a limited knowledge about entry modes, in addition the SMEs internal factors, target market factors affects the Egyptian SMEs internationalization so that small number of firms involve in internationalization.

Internationalization barriers from South African perspective also researched by Matthee and Krugell (2012), accordingly they found out that the internal resource barriers play a major role for internationalization. The productivity of the firms and their size shows a positive relationship for internationalization. Furthermore the electricity problem and transportation was found to be a barrier as they are affecting the firm's productivity and the transportation to the harbors crates a huge problem and this in turn reduce the firm's competitiveness in the international market. The exchange rate also found to be a challenge from the South African point of view; the weaker rand contribute to less expert competitiveness of the South African SMEs.

The theoretical discussions show that the internationalization problems are seems to be focusing in some related areas. To show these challenges, the researcher is trying to include research findings from different perspectives and various points of views from different countries perspectives. As various research findings and different research approaches were applied, it will be better to have a theoretical frame work for the thesis to have a structured result for the study. Accordingly, the researcher chooses to apply the research findings by Tesfom & Lutz, (2006) for the quantitative study to develop a questionnaire based on the findings by adapting in to the research problem in order to find the Ethiopian SMEs challeng-

es. The earlier research findings show the internationalization challenges of developing countries SMEs. As Ethiopia is among the developing countries, it will help to see the challenges from the perspective of the earlier findings. For the qualitative research methods, an interview questions will be designed based on the internationalization process to find out the challenges of internationalization in different phase of internationalization activity of Ethiopian SMEs from the general point of view by focusing on SMEs which are found in Addis Ababa, a capital of Ethiopia.

3 EMPIRICAL STUDY

The empirical part of the study focuses on the internationalization challenges based on the theories which have been discussed in the theoretical part of the study. In this part of the study the detailed internationalization challenges of the Ethiopian SMEs will be discussed. To accomplish the desired objective both qualitative and quantitative research methods will be applied to identify the challenges appropriately. The objective of the empirical study will be to identify the top challenges of the Ethiopian SMEs and suggest a solution for the better internationalization of the SMEs. In order to apply the research finding for future use the validity and the reliability of the research will also be discussed.

3.1 Validity and reliability

Research designing, creating and implementing varies from method to method. However, the main commonality among them is to reach to a finding which is reliable and valid to have credible finding for future use. There are a variety of factors which influence the validity and reliability of a given research, so that this various factors need to be taken into consideration in various phase of the research.

3.1.1 Reliability

Reliability refers "the measure that consistently generates the same result over repeated measures."(Wrenn, Stevens & Loudon, 2007). The main underlining point of the reliability focuses on the repeatability of the result and reaching to similar result. The consistency of the answers for a specific question can be measured through the reliability. The reliable results provide similar output over different research period.

The reliability of the qualitative and quantitative research varies considerably as their measures differ from one another. It is possible to increase the reliability of the research by minimizing the researchers influence on the respondents. In a formal, structured interview, the interviewer effect can be reduced but in an informal

interview, the reliability can be much lower. To avoid and minimize the intrusion of the researcher, postal questioner or an online questioner would be more appropriate, but the reliability highly depends on the nature of the questions. Those highly structured, closed questions may tend to provide a higher reliability than open-ended questions which ask the respondents to write a paragraph in response (Oliver, 1997).

The reliability of a quantitative research can be measured using a variety of methods. But the qualitative research relies on the quality of the research itself. If other researchers follow the same procedure and reach to the same or related result then the reliability of the research is then proofed by other researchers and will be credible.

3.1.2 Validity

Validity refers to the extent to which the research design, concept, method conclusion measures what the researcher is intending to measure and correspond to real world (Oliver, 1997).

The research method selection plays a vital role for the validity of the research. It will be very important to give a consideration on selection of the research method which can correspond to the required response. In addition the validity of the research can be increased by using a variety of ways to obtain the same results without the influence of the chosen method. This in turn proves that the collected data are actual and measures what intended to measure (Oliver, 1997).

3.2 Quantitative study

In this part, the different approaches and applications of the quantitative methods along with the type of method for the study, how it is going to be implemented, and the research population will be discussed. Afterwards, the detailed research analysis and findings results about Ethiopian SMEs internationalization challenges will be identified and discussed based on the general perspective as well as from small and medium size companies perspective separately to see the degree of the challenges by category.

3.2.1 Survey as a research method

Survey method is applied for the quantitative research. By applying the survey method, required information related to the research problem can be gathered. The application of survey methods has a variety of advantages for the researcher. It will be possible to gather information in standardized manner so that it will bring about high objectivity. The questionnaires also help to reach large number of respondents and the data can be easily analyzed using the appropriate statistical packages.

Surveys are mainly applied to collect all type of primary data and help to generate data which can be possible to test various types of hypothesis that shows relationships among different variable in the respondent groups. It also help to gather opinion of the respondents, descriptions of opinion using the cause and effect approach (Wrenn et al, 2007).

Surveys can be done using the internet by creating the questionnaire and distributing it to various respondents electronically very quickly. As the data are electronically delivered, statistical analysis software can be programmed to analyze and produce charts and graphs for the summarization of the analysis. It has an advantage of being less expensive than using interviews or printing, mailing, and tabulating mail surveys. However, in order to have a high response rate a serious follow up is required (Wrenn et al, 2007).

The survey results can be affected by a variety of factors the target respondent, the layout and design of the survey need to be taken in to consideration. The respondents need to feel interesting and worthwhile to fill it. In addition the designing strategy of the questionnaires need to be user friendly by separating the questions in to groups, giving heading and explanation instruction and using the appropriate font need to be applied (Oliver, 1997).

3.2.2 Implementations process

The implementation phase of the research is very important aspect of the research in order to get the desired level of output. A properly implemented research will lead to have reliable and valid research findings.

The questionnaires for the research topic in line with the related literature reviews will be prepared to gather the important information. The main objective of the research is to find out internationalization challenges of Ethiopian SMEs. In order to find appropriate and relevant information the questionnaires need to be designed properly without creating confusions on the respondents. The questions are designed based on the selected theoretical frame work by focusing on internationalization challenges of developing countries and to see the effect of those pre studied challenges from the Ethiopian SMEs point of view. There are 28 questions in total which are designed to get the general information of the companies and the degree of the given potential challenges.

The questionnaires is divided in to two parts, the first part focus about the general information of the respondent companies to identify and classify the companies in to small and medium size enterprises and the target market, how long they have been in international business and their sector can be easily identified. Accordingly the general information helps the researcher to have a desired target groups for the data analysis by rejecting the unnecessary respondents.

The designed questionnaires need to be checked with pre testing groups before it is distributed to the target respondents. By pre testing the questionnaires, it can easily be detecting if any kind of problems arise in the designing phase as well as respondents can comment on the questions and will be asked if the questions were clear and understandable. In addition the language and grammar problems can also be adjusted before the actual and final questionnaires is being sent to the respondents.

After the questionnaires is checked and edited, it will be sent to the target respondents with the detail explanations of the research topic and its importance via

email and a follow up to get more respondents for the analysis will be made regularly.

Once the responses are gathered on the given time frame the data analysis will be made using Statistical Package for the Social Sciences software (SPSS) and different illustrative graphs and charts will be produced for a better understanding of the research analysis. Finally the research findings and reflection on the results including suggestions and recommendations along with directions for future research will be forward.

3.2.3 Population

The effectiveness of the research highly depends on the appropriateness of the target group. The research focus on internationalization challenges of Ethiopian SMEs accordingly, different companies which are involving in export business are selected from the Addis Ababa chamber of Commerce and secretarial business directory. Agricultural and related products exporters, manufacturing and exporting as well as other different types of products exporters were included. In order to get a comprehensive result the researcher tries to include different groups of exporting companies and the questionnaires were sent to those which are found on the directory. It is known that all the companies are not included in the business directory but by allocating a proportion on the groups the questionnaires were sent accordingly.

The definition used to differentiate SMEs is based on the Ethiopian classification for the micro and small enterprises, whereas the European definition for the middle enterprises is applied. The Ethiopian classification gives attention for micro and small size enterprises so that the middle enterprises are not clearly defined. From the respondents the micro enterprises and large enterprises are excluded and only those small and medium size enterprises are considered for the analysis part. As the questionnaires are sent through e-mail, the respondents may not be familiar for such surveys and may not be interested to participate so that they ignored it as

something not important. However, by sending a reminder mail the response rate can be increased to some extent.

3.2.4 Analysis of the questionnaires results

The questionnaires were sent to 150 SMEs in proportion to their sector. Agricultural and related exporters, manufacturing and exporting, and general exporters were included on the survey. Accordingly 61 responses were reached. This is quite interesting response rate with in a very short period of time. The overall response rate is 40.66%. Further, this number will be lower after getting the general information of the participating organization by taking out those respondents which are either micro or large companies. In order to get a higher response rate a reminder letter was sent for the companies by explaining the importance of the research for their future improved internationalization activities.

3.2.4.1 General information

The general information is an important aspect of the study for a better understanding of the companies and for classifying them based on their activities and company size. As the main target of the research is focusing on the SMEs, those companies which do not belong to the research group can be easily identified for a better analysis and help to achieve the set objectives.

Company size

The first question is related to the company size of the participating SMEs. In order to classify a company as a small or medium size enterprise, the definition used for Ethiopian companies and the definition by the EU is applied for the middle size companies. Accordingly, Ethiopia's classification is companies with 1-5 employees as a micro company, and 6-30 as a small company. As the company size for medium companies is not clearly indicated, classification given by the EU is used. Those companies that have less than 250 are considered as medium size companies. In this research medium companies are ranging to the maximum of 250 employees. In order to identify the large companies from the group those companies which have more than 250 employees are considered large companies.

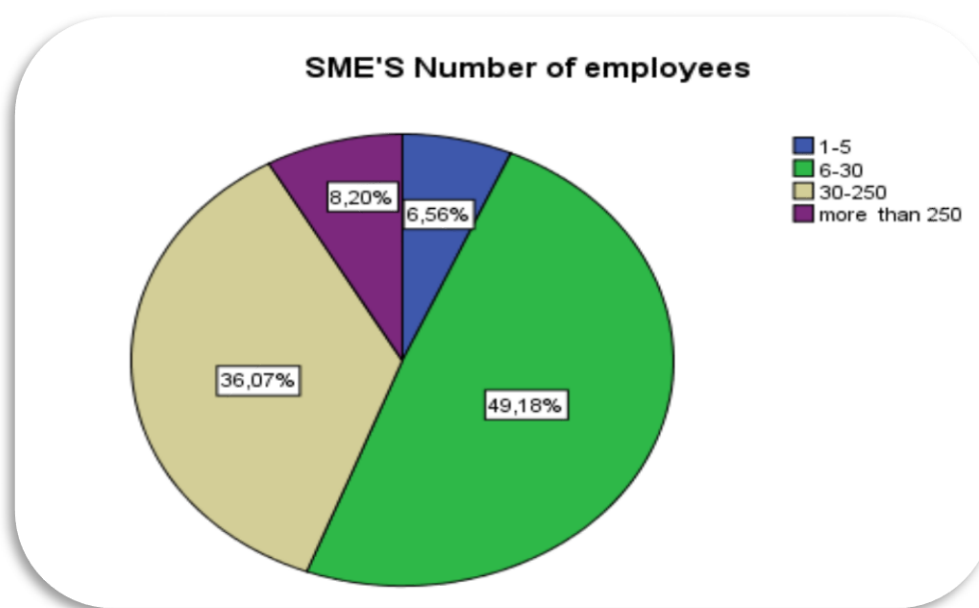


Figure 2 Company size by employees

From the Figure 2, it can be clearly seen that different company sizes are participating for the research. Micro firms accounted for 6.56%, large companies for 8.2%, small companies for 49.18% and medium companies 36.07%. As discussed earlier the focus of this study is on small and medium companies, so that the micro and large companies will be excluded for the detailed analysis later.

Revenue of the company

The next question is related to the company's annual revenue. As the number of employees may not be enough to classify the companies in to small and medium size, the annual revenue is also included to identify the real target group for the research. According to the Ethiopian classification, those companies which generate an annual revenue of less than 100,000birr (\$5000) are micro firms, those which generate an annual revenue between 100,000 birr and 1,500,000 birr (\$5000 -\$75,000) are small firms. The revenue of middle sized companies is not clearly indicted so that the definition for middle sized companies by the EU is less than or equal to €50million annual revenue. For this research as the maximum revenue for the EU is quite big those companies which generate more than

1,500,000 birr (\$75,000) are grouped under middle companies for the analysis purpose.

From Figure 3 a more clear classification of the companies can be observed. 3.28% of the total respondents generate an annual revenue of under 100,000 birr (\$ 5000) representing micro firms, 36.07% of the total respondents generate an annual revenue between 100,000 birr -1,500,000 birr (\$5001 - \$75,000) which represent a small company, and the remaining 60.66% of the respondents are generating an annual revenue of more than 1,500,000 birr (\$75,000), which represent a middle size company. The micro companies again will be excluded for the analysis purpose.

The above two questions help to classify the target companies of the research group so that nine respondents, being four micro and five large companies, are excluded from the responses and a total of 52 responses will be analyzed for the detailed internationalization related questions.

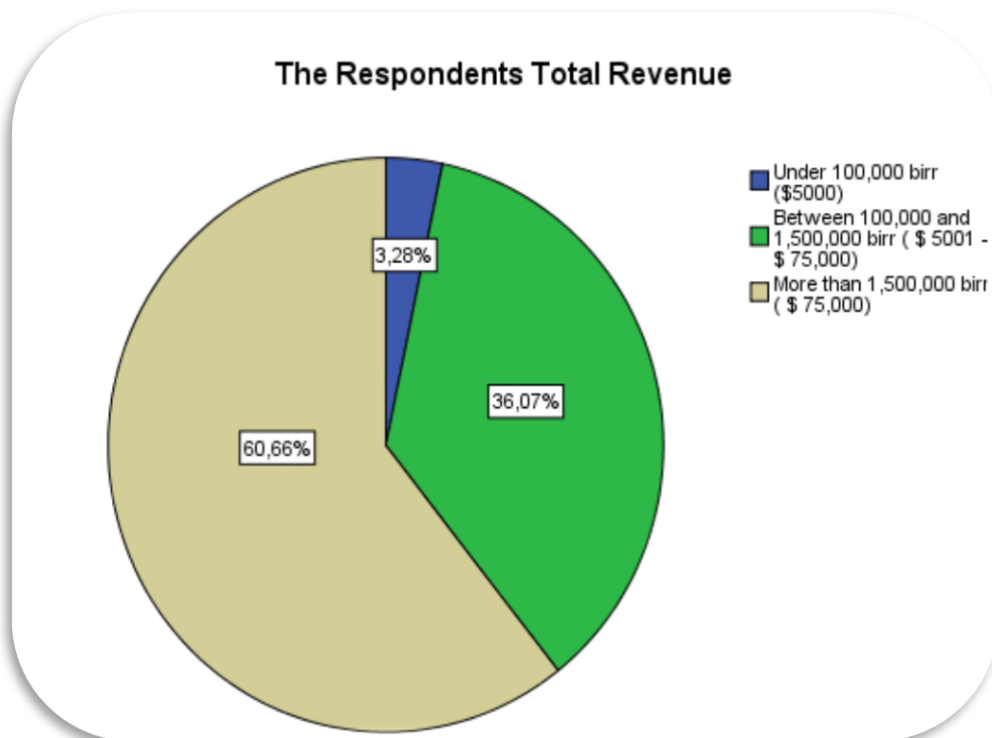


Figure 3 Annual revenue of the companies

Year of establishment

The third question is about the company's years of establishment. The establishment year is classified with a range of fifty years. The classification was as established before 1900 G.C, between 1900 - 1950 G.C, between 1950- 2000 G.C and After 2000 G.C to see the general picture of the company's overview.

According to the classification, Figure 4 shows that the respondent companies were found to be grouped under two categories. 57.38% of the companies were established after 2000 G.C and the remaining 42.62 % were established in between 1950 - 2000 G.C. No respondent company were established before 1900 G.C or between 1900 – 1950G.C. The responses show that the age of the exporting companies ranges between 1 - 64 years and the majority of the exporting companies are not more than 14 years old.

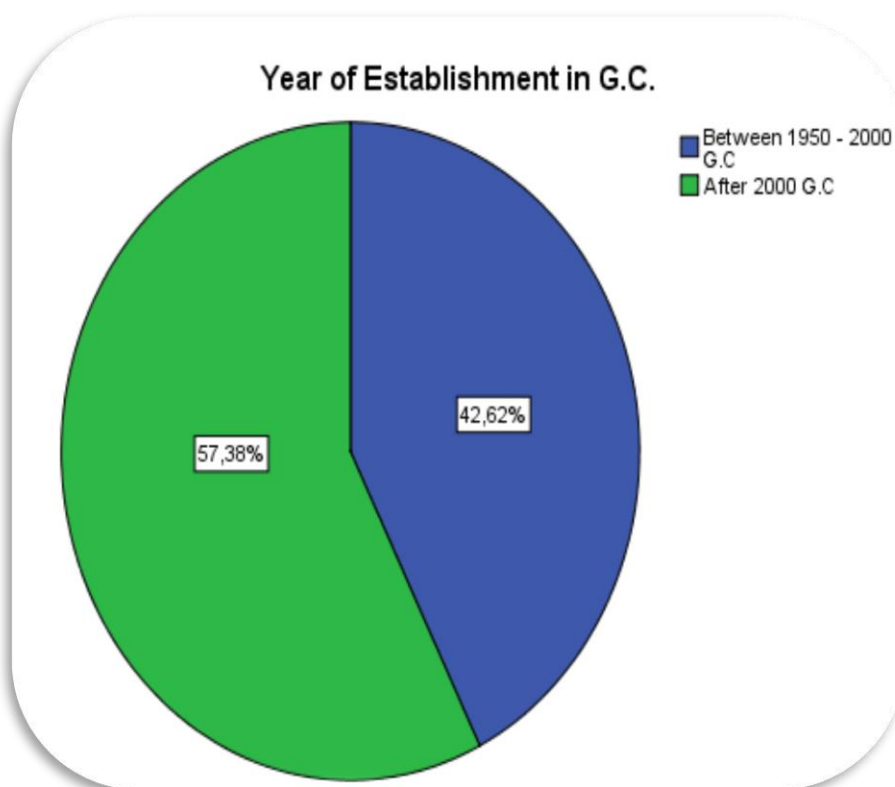


Figure 4 Companies years of establishment

International involvement

The fourth question is about the involvement of companies in international business. This helps to see how long the companies have exported and been involved in international trade. The classification is 1-10 years, 11 - 20 years, 21 -30 years and more than 30 years.

From Figure 5 it can be seen that the majority of the companies, 59.02% had been involved in international trade for 1-10 years, 21.31% for 11 -20 years and the remaining 19.67% for 21 - 30 years. It shows that the internationalization activities of Ethiopian companies have been increasing recently and the majority of the companies are becoming involved in international business. No company is found to be involved in international activities for more than 30 years. Private enterprises have been becoming popular during the recent years. Previously, the majority of the companies were government owned due to the fact that the country had different trade policies under different government regimes.

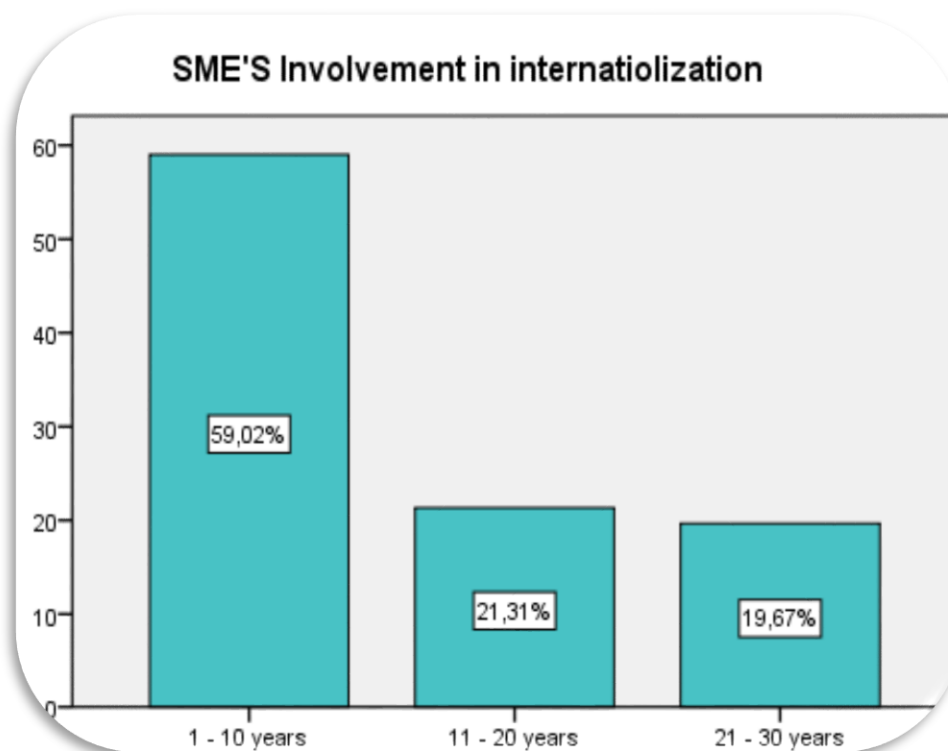


Figure 5 SMEs involvement in international business

Business sector

The respondents were asked to mention their business sector to study the diversification of the respondents' business sectors. The respondents were classified in to three groups to gain a wider perspective of the research problem. Accordingly, the agricultural related product exporters, manufacturing and exporting, and other different item exporters were included. The classification of the respondents based on their sector is presented in Figure 6.

From the Figure 6 it can be seen that the majority of the respondents, 47.54% belong to agriculture and agriculture related products exporters, 29.51% belong to manufacturing and exporting firms, and the remaining 22.95% were found to be other different item exporters. The response distribution is quite reasonable in relation to the proportion of the questionnaires which have been sent. As the majority of the countries exporting activity is undertaken by the agricultural sector, the respondents' response rate is also helpful in finding the real challenges of the internationalization activities of the SMEs. As the country is trying to support the agricultural economic policy by manufacturing industries, the involvement of the manufacturing sector in the internationalization activities is also considered as in a better position.

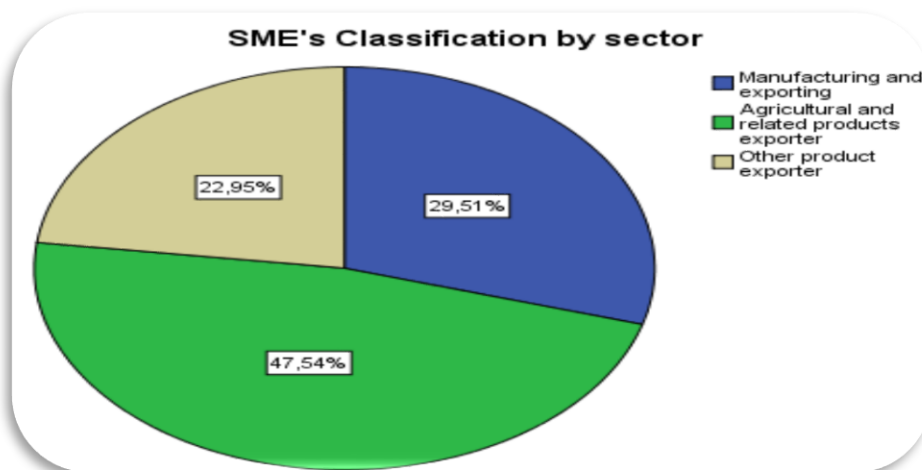


Figure 6 SMEs classification by their sector

Best geographic market

The last general information question is about the SMEs best market for their business. All the continents were provided for the selection. The best markets tells which market is more convenient for the SMEs' internationalization involvement as well as give opportunity for other companies to look for a promising future business as well as target other markets which are not well treated through the internationalization activities of the SMEs. The best geographic market of the SMEs response is described in Figure 7.

The best geographical market in terms of their sales is found to be Europe, which is represented by 52.46%, the remaining of the identified continents accounted for 18.03% for North America, 16.39% for Africa and the rest, 13.11%, were mentioned as Asia. The other continental market areas which are South America and Oceania were not considered as best markets for the SMEs. Companies can adjust their strategy to meet the needs of their best market and be able to compete in the industry that they are engaging. Those markets which are not identified as best markets can be an opportunity for SMEs to investigate the business opportunity and explore needs for their export and enhance their internationalization remarkably.

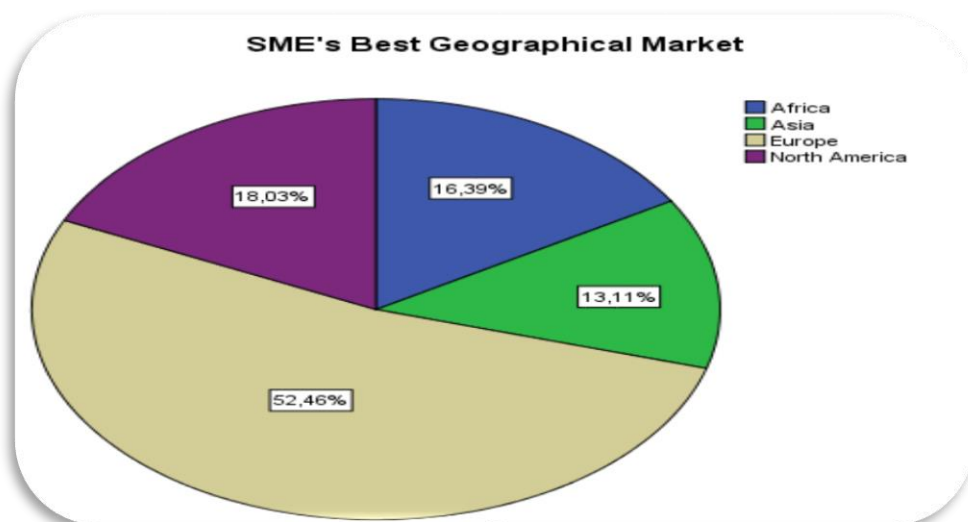


Figure 7 Best Geographic market of SMEs

Internationalization related challenges

The respondents were asked to rate the degree of the internationalization challenges which were provided for them. The challenges were mainly focused on internal challenges of the companies as well as the external challenges which are affecting their internationalization. The expected challenges were taken from the theoretical framework chosen for this research. These challenges were found to be internationalization challenges of developing country SMEs. As Ethiopia is among the developing countries the identified problems will be checked if they work out for the Ethiopian SMEs. The challenges were classified in to five main categories which include company related challenges, product related challenges, industry related challenges, export market related challenges and macro environment challenges to see the overall challenges which are affecting the internationalization performance of the SMEs.

Company related challenges of SMEs

The company related challenges are associated with the internal challenges of the SMEs. Under the company related challenges lack of marketing knowledge and information, lack of adequate working capital for internationalization, lack of trained and experienced human resource, and lack of knowledge about the internationalization were included.

Marketing and information knowledge help to find the appropriate market for the internationalization of companies and gathering the appropriate information at the right time makes a difference on the SME internationalization performance of SMEs.

Figure 8 clearly shows that the majority of the respondents, 57.7%, rate the lack of marketing and information challenge as very challenging and 21.2 % of the respondents estimates it as quite challenging and 9.6% consider it as extreme challenging. An insignificant number of respondents rate lack of marketing and information knowledge as somewhat a challenge and not a challenge at all. It shows

that lack of marketing and information knowledge is a very challenging factor for the internationalization performance of SMEs.

The availability of sufficient working capital for the internationalization of SMEs is another internal factor in internationalization performance. Having credit facilities and institutions which can support internationalization plays a great role for internationalization success of SMEs.

The responses show that 36.5% of the SMEs consider lack of working capital as an extreme challenge for internationalization and 25% consider it as a big challenge and 19.2% rate the working capital problem as very challenging. Few respondents rate lack of working capital as somewhat a challenge and not a challenge at all. The overall findings show that lack of adequate working capital is an extreme challenge for the internationalization of SMEs in Ethiopia.

The internationalization performance of SMEs highly depends on the availability of trained and qualified human resources. The attitudes of the management as well as the owner and the staff need to have the needed skills for internationalization.

The response rate shows that 51.9% of the respondent SMEs rate the lack of trained and experienced human resource as very challenging, 26.9% considered it as quite challenging and 13.5% as somewhat challenging only few respondents rate as extreme challenge and not a challenge. The response distribution shows that lack of trained and experienced human resource is a very challenging problem for SMEs internationalization.

Knowledge about internationalization is also another internal factor that enhances the internationalization activities of SMEs. The concept of internationalization is not widely applied in Ethiopian SMEs. The knowledge about different approaches of internationalization will help to minimize the problems and enhance the SMEs performance in the international market.

The responses show that 46.2 % the respondent SMEs consider knowledge of internationalization as an extreme challenge, 40.4% consider it as very challenging.

The overall responses show that lack of knowledge about internationalization is an extreme challenge for the internationalization activities of Ethiopian SMEs.

The summary of the company related challenges shows that lack of marketing and information knowledge is very challenging and internationalization knowledge is an extreme challenge for Ethiopian SMEs.

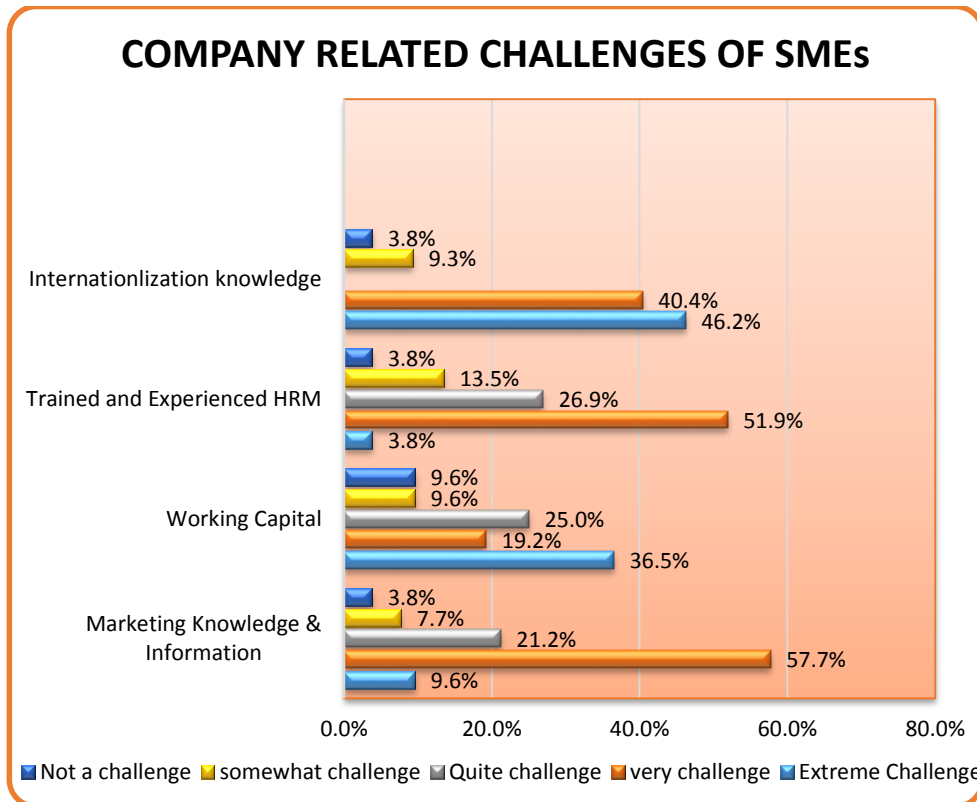


Figure 8 Company related challenges of SMEs

The challenges of SMEs are focusing on both small and medium size companies. The problem of the small size companies differ from the middle size companies. The general response finding of the respondent SMEs were clearly discussed above. Following separate findings of both for the small and medium size companies will be discussed.

Figure 9 show that the internationalization challenges of small companies concentrate on the response of very challenging and extreme challenging. Accordingly 70% of the respondents consider trained and experienced human resources as very

challenging, 63.3% marketing and information knowledge as very challenging and an equal number of the respondents, 56.6%, consider working capital and internationalization knowledge as an extreme challenge for small companies. In the overall responses working capital and knowledge of internationalization is an extreme challenge for small companies from the perspective of company related challenges.

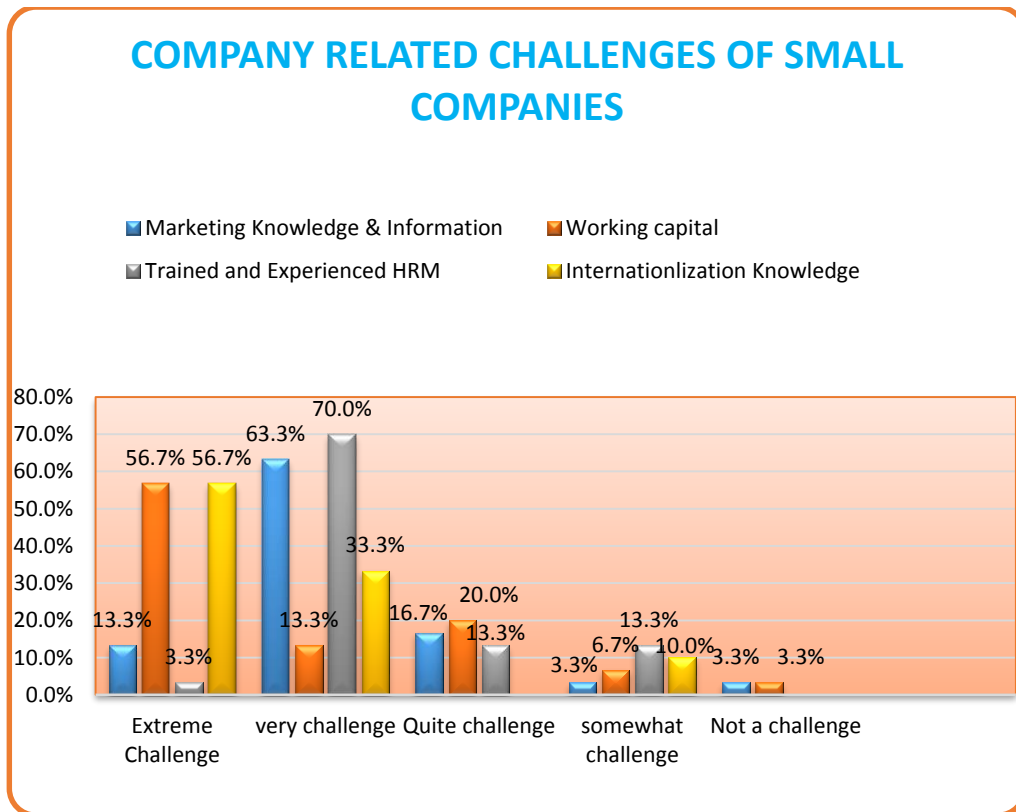


Figure 9 Company related challenges of small Companies

The response distribution of the medium companies in Figure 10 shows that an equal amount of responses, 50%, rate marketing and information knowledge and internationalization knowledge as very challenging, 45.5% consider trained and experienced human resources as quite challenging and 31.8% of the medium companies considered internationalization knowledge as an extreme challenge for internationalization. The overall responses show that the lack of marketing, information and internationalization knowledge is a very challenging factor for the internationalization of medium companies from the company related challenge perspective.

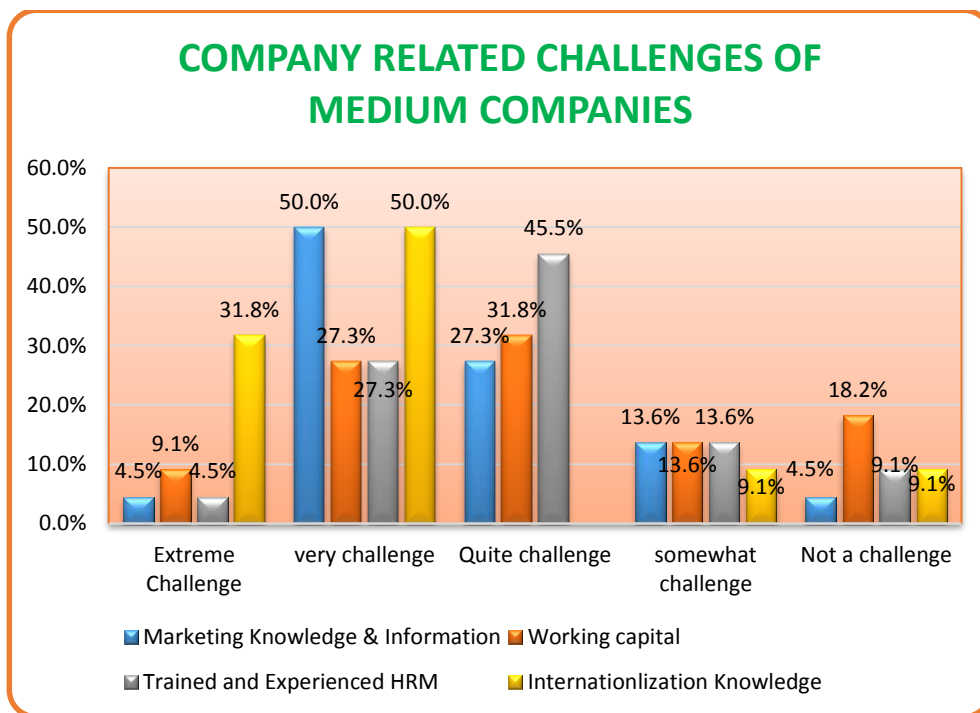


Figure 10 Company related challenges of medium companies

Product related challenges

Product related challenges on internationalization also relate to the internal challenges of internationalization. These factors include the quality of the export product, the quality standards set by the importing countries and the adaptation of products to different market. These challenges were presented for the SMEs as a challenge and the SMEs were asked to rate the degree of the challenges based on the given scale. As explained previously these challenges were found to be challenges of internationalization in the developing countries in previous studies.

Producing quality product and delivering to the international market is the best strategy for a company's success. The products also need to meet the quality standards which are set for the international market. Furthermore, as different customers may have a variety of needs and requirements for the same product, companies need to adjust their position in relation to the required changes and adapt their product based on the customer's requirements in order to make internationalization activity more successful.

Figure 11 show that the product quality of the export item is considered as very challenging by 50 % of the respondents and 23.1% consider it as quite a challenging factor in internationalization. The other responses are distributed proportionally. In relation to the product quality, the quality standards set by the importing countries are found to be very challenging by 48.1% of the SMEs and 23.1% consider the issue as not a challenge. The other responses are distributed insignificantly. As the quality of the export item and the quality standards are a very challenging problems in adapting the products for the needs of the customers were also found to be very challenging by 46.2% of the respondents and 28.8% consider it as quite challenging and 15.4% of the SMEs rate it as extremely challenging from the viewpoint of internationalization.

The overall results show that all the product related challenges are found to be very challenging for the internationalization of SMEs. Also, the quality of the export product is much more challenging based on the scale given for comparison.

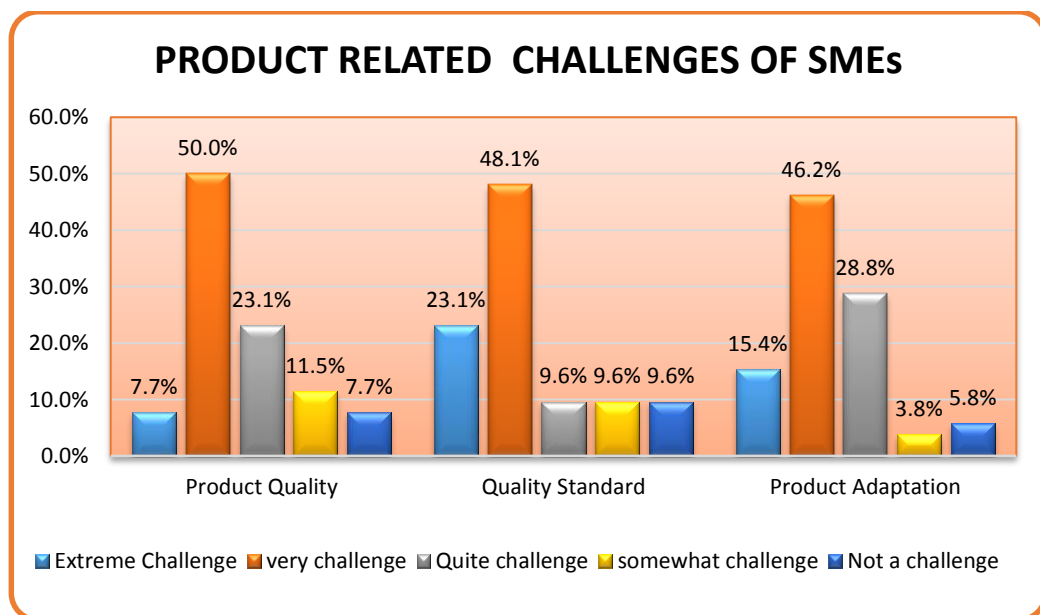


Figure 11 Product related challenges of SMEs

In order to see these product related challenges based on the size of the company the product related challenges of both small and medium size companies will be presented next.

It is very interesting to see that all the three product related challenges are found to be very challenging by 46.7% of the small company respondents. However, the quality standards set by the importing countries are found to be extremely challenging by 23.3% of the small companies whereas 30% of the small companies respond product adaptation based on the customer's requirements is quite challenging. The other responses are distributed proportionally as clearly shown in Figure 12. The overall rate shows that the entire given product related challenges are equally very challenging for the internationalization of small companies.

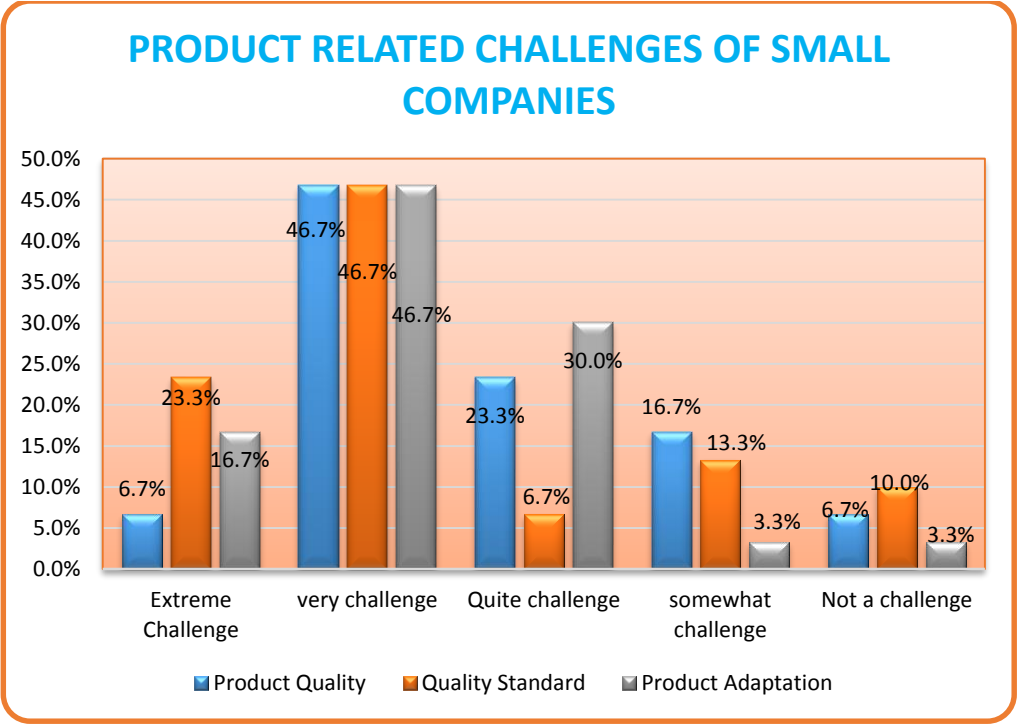


Figure 12 Product related challenges of small companies

The given product related challenges again also found to be a very challenging for the majority of the medium companies. Figure 13 shows that the product quality of the export item is rated as very challenging by 54.5%, the quality standard set by the importing countries is rated as very challenging by 50% and the product adaptation based on the requirement of the customers was rated by 45.5% as very challenging by middle size companies. The quality standards is rated by 22.7% of middle companies as extreme challenging and about 28% of the respondents rated

all the problems as quite challenging. The product related challenges for the middle size companies are found to be all very challenging. The product quality of the export item is much more challenging for the internationalization of middle size companies.

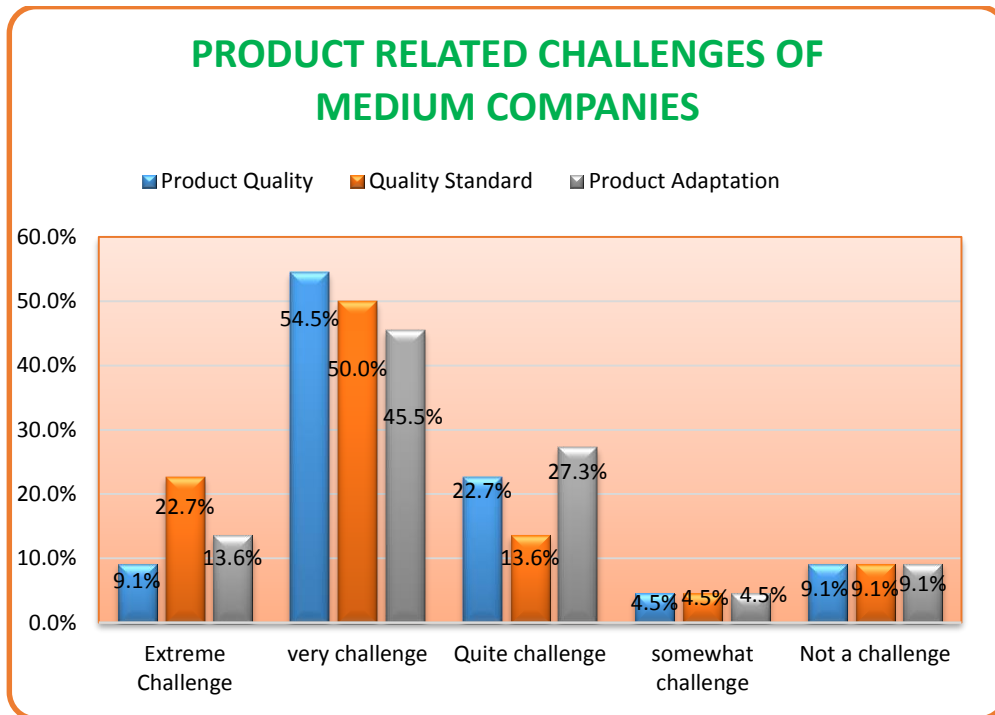


Figure 13 Product related challenges of medium companies

Industry related challenges

The industry related challenges are classified under the external challenges which can affect the internationalization activities of the SMEs. There are a variety of industry related challenges based on the nature of the sector. In this study the respondents were asked to rate four industry related challenges which are common for all sectors. These challenges were identified as the industry related challenges of developing countries in the previous studies. The distinctive consumer preferences, unfamiliar business protocols and practices, the imposition of tariff barriers and fierce competition were provided for the respondents to rate their degree of the challenges for their specific industry. The findings are presented in Figure 14.

Different foreign consumers have their own preferences for a specific product. Providing the required product based on the requirement of the consumer is a very important aspect of the internationalization success. The result shows that 51.9% of the respondents rate distinctive foreign consumer preferences as very challenging and 21.2 % consider it as quite challenging and about 10% of the respondents rate it as extreme challenging while 13.5% consider it as somewhat challenging and few respondents consider it as not a challenge at all. The overall responses show that distinctive foreign consumer preference is a very challenging factor for the internationalization of SMEs.

The business practices and protocols may vary from industry to industry as well as country to country. If companies are not familiar with the business environment that they want to internationalize their business in, this will create a problem. It was found that 57.7% of the respondents rate this factor as quite challenging and 23.1% consider it as a very challenging factor and about 12% consider it as a somewhat challenging factor. The unfamiliar business practices are found to be quite challenging for the internationalization of SMEs.

The tariff barrier is another factor under the industry related challenges 42.3% considered it as quite challenging and 32.7% considered the tariff barriers very challenging and about 12% of the respondents considered it as an extreme challenge. The overall responses show that the imposition of tariff barriers is a very challenging factor for the internationalization of SMEs.

The last industry related challenge is the fierce competition in the international market. Different companies all over the world compete in the market to gain the best out of it. The responses show that about 42.2 % the respondents rate competition as an extreme challenge for their internationalization and 40.4% as a very challenging factor. The remaining percentage is distributed insignificantly over the other categories. The competition is found to be an extreme challenge for the internationalization of SMEs.

The overall industry related challenges show that the distinctive foreign consumer preference is a very challenging factor.

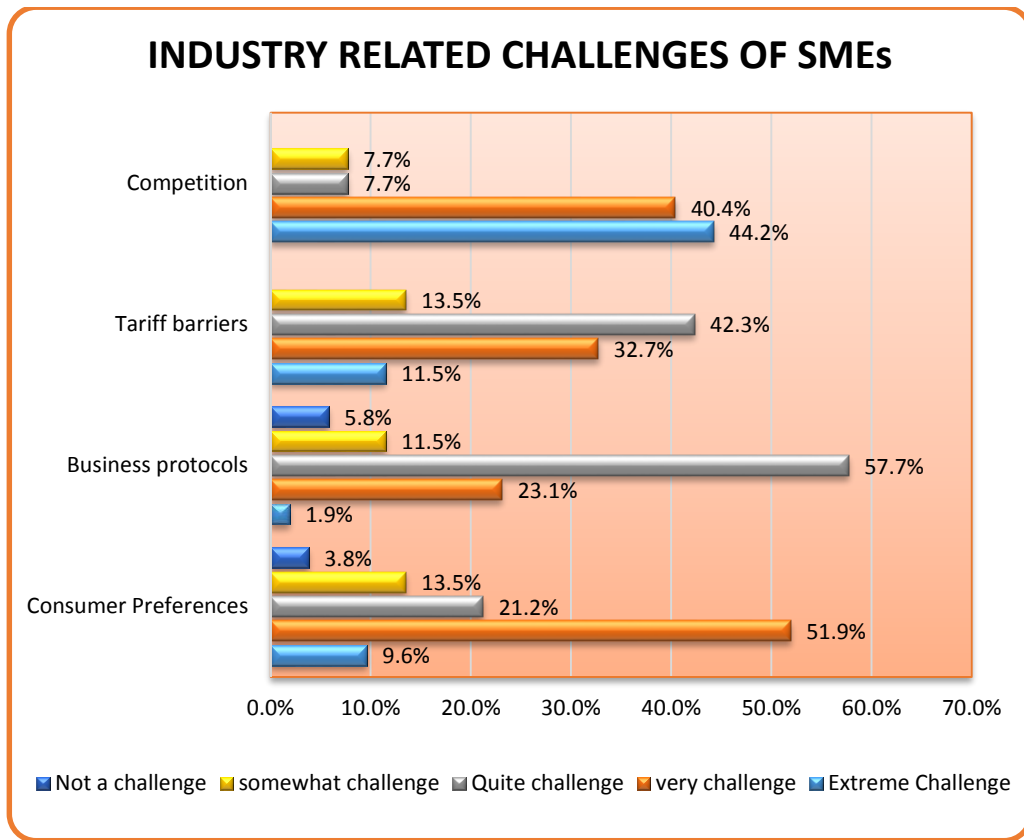


Figure 14 Industry related challenges of SMEs

The distribution of the responses over small and medium companies is presented in the coming parts.

The industry related challenges for small companies in Figure 15 shows that the fierce competition is found to be an extreme challenge by 43.3% of the small companies. The unfamiliar business protocols and practices are found to be quite challenging by 53, 3% of the small company respondents. The majority of the responses for the other factors concentrate on very challenging, the distinctive consumer preferences take 53, 3%, fierce competition 43, 3%, the imposition of tariff barriers 36.7 % and business protocols account for 26.7% as a very challenging factor for internationalization. The overall responses show that from the given industry related challenges fierce competition is found to be an extreme challenge for the internationalization of small companies.

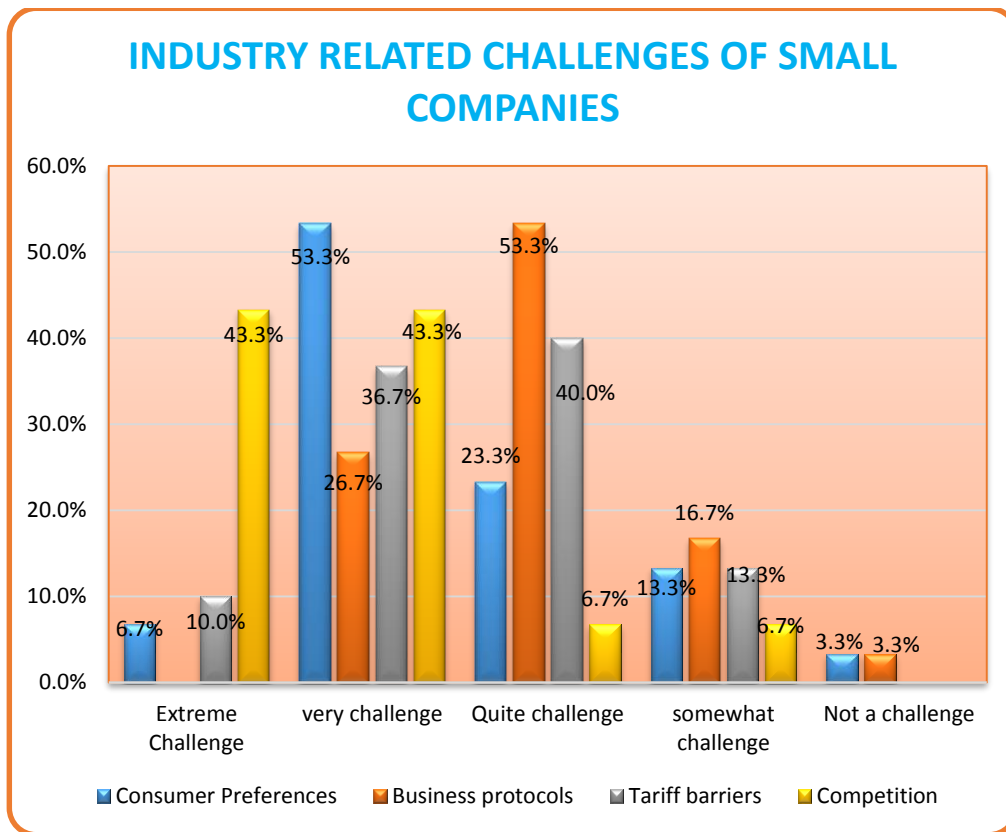


Figure 15 Industry related challenges of small companies

The industry related challenges of the medium size companies in Figure 16 show that 45.5% of the respondents in medium companies rate fierce competition as an extreme challenge whereas the unfamiliar business protocols and practices, and tariff barriers are found to be quite challenging by 63.6% and 45.5% respectively. The other factors concentrated on very challenging. The distinctive consumer preference is considered as very challenging by 50% of the respondents and 36.4% also rate competition barriers as very challenging. The overall industry related challenges for the medium companies is found to be fierce competition that minimizes the degree of internationalization of medium companies.

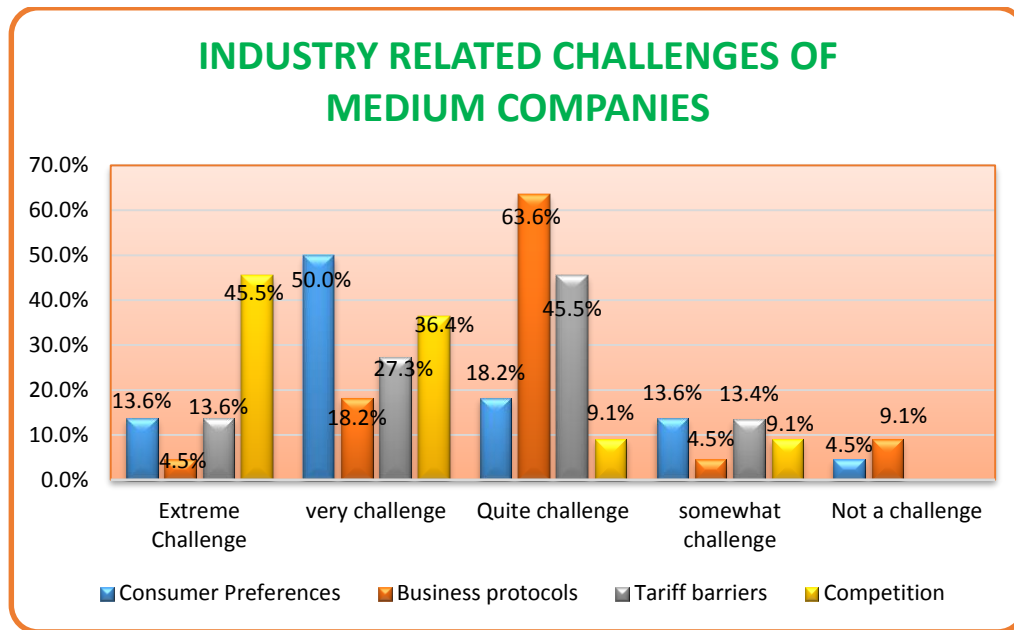


Figure 16 Industry related challenges of medium companies

Export market related challenges

There are a number of factors that affect the export market. The market related challenges are also classified as the external barriers for internationalization. To see the effects of market related challenges product requirement in the export market, country of origin problem, the differences in legal and regulatory framework in importing countries, bad image of product in foreign market, insufficient foreign demand and cultural and language differences were included to see their degree of challenges for the internationalization of SMEs. These challenges, again, are found to be challenges for the internationalization performance of developing countries in the earlier studies. The degree of each challenge factor will be described in Figure 17.

Meeting the requirements set by the importing countries creates a competitive advantage in the international market. The findings show that 65.4% of the respondents find that the product requirements set by the importing countries are very challenging and 17.3% considered them as an extreme challenge. It appears that the Ethiopian companies have a problem of meeting the quality standards set by the importing countries. The overall findings show that the product requirements

in the importing countries are very challenging for the internationalization of Ethiopian SMEs.

The country of origin is another market related challenge for internationalization. The results show that the country of origin challenge is quite a challenging factor in internationalization for 44.2% and 32.7% rate it as very challenging factor, where as 7.7% found it an extreme challenge for internationalization. The country of origin challenge is found to be quite challenging for Ethiopian SMEs. The country of origin and the quality of the products directly relates if the companies produce quality standard product based on the international market requirements. Then the country of origin problem can be minimized. As an example SoleRebles from Ethiopia has recently started becoming an international brand and competing in the international market successfully.

The difference in legal and regulatory framework in importing countries is also another market related challenge. Companies need to be familiar with the laws and regulations in the country that they export to. The result findings show that 46.2% of the respondents think that it is quite challenging and 30.8% rate it as very challenging. The overall findings show that the legal and regulatory framework is quite a challenging factor for the internationalization of Ethiopian SMEs.

The image of the products also affects the competitiveness of the companies in the international market. The majority of the respondents, accounting for 46, 2%, rate bad image of a product in the foreign market as quite a challenging factor and 21.22% consider it as a very challenging factor. It shows that the problem is rated as quite a challenging factor for the internationalization of Ethiopian SMEs. This challenge is also associated with the quality of the products. When the quality improves the image for the products also rises accordingly.

The demand for the products in the international market encourages company involvement in the internalization activity. The results show that 71.2% of the respondents considered insufficient foreign demand as a very challenging factor and 11.5% as quite a challenging factor for internationalization. The overall response

shows that the insufficient demand in a foreign market is a very challenging factor for the internationalization of Ethiopian SMEs.

The last market related challenge is the cultural and language difference. Understanding the culture and the language of the foreign market helps to minimize the problems that may arise during the internationalization activities of the SMEs. The results show that 51.9% of the respondents rate it as quite challenging and an equal percentage of respondents with 15.4% rate it either as very challenging or somewhat challenging. The challenge in relation to the language and cultural difference is found to be quite a challenging factor for the internationalization of Ethiopian SMEs.

All the market related challenges are found to be challenging factors with a different degree of challenge rate. The overall export market related challenges show that the product requirements set by the importing countries are found to be a very challenging factor for the internationalization of Ethiopian SMEs.

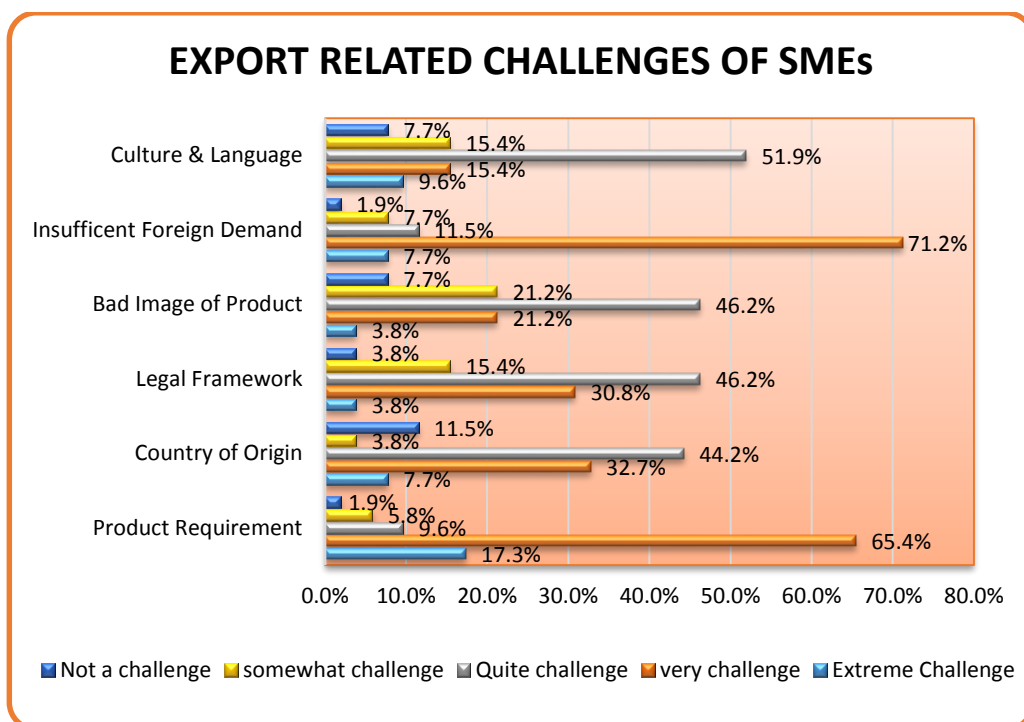


Figure 17 Export market related challenges of SMEs

Again, responses will be evaluated based on the size of the companies to compare the degree of the challenges between the different sizes of companies.

The export market related challenges for the small companies in Figure 18 shows that the product requirements in the export market are found to be very challenging with a 66.7% response rate and the degree of challenge as extreme and somewhat challenge, with 13.3%. None of the small companies' respondents consider it as not a challenge. The country of origin is also another problem 43.3% of the small companies find it quite challenging and 36.7% rate it as a very challenging factor. The higher percentage rate goes to insufficient foreign demand, 73.3% of small companies think that the availability of sufficient foreign demand is a very challenging factor for their internationalization. Bad image of the products, differences in legal and regulatory framework in importing countries and cultural and language issues are found to be quite challenging with a percentage of 40%, 50% and 53, 3% respectively. The overall results show that among the given market related factors insufficient foreign demand is a very challenging situation for internationalization of small companies.

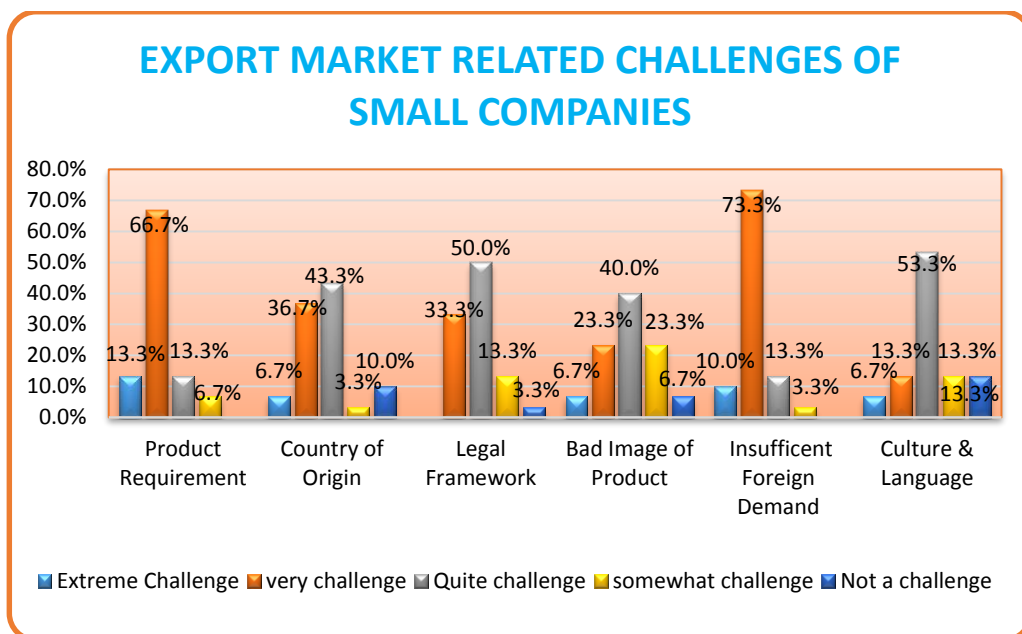


Figure 18 Export market related challenges of small companies

From the perspective of the medium companies, the export market related challenges will be presented in Figure 19.

The export market related challenges of the medium companies show that insufficient foreign demand and the requirements of the products in the export market is a very challenging situation with 68.2% and 63.6% respectively. About 28% of the medium companies' respondents think that the product requirements in the export market is an extreme challenge for their internationalization. The other factors, the bad image of products in the foreign market, cultural and language differences, country of origin problem, and differences in the legal and regulatory framework in importing countries all are found to be quite challenging with a percentage of 54.5%, 50%, 45.5% and 40.9% respectively. From all the given market related challenges, insufficient foreign demand is again a very challenging factor for the internationalization of medium companies.

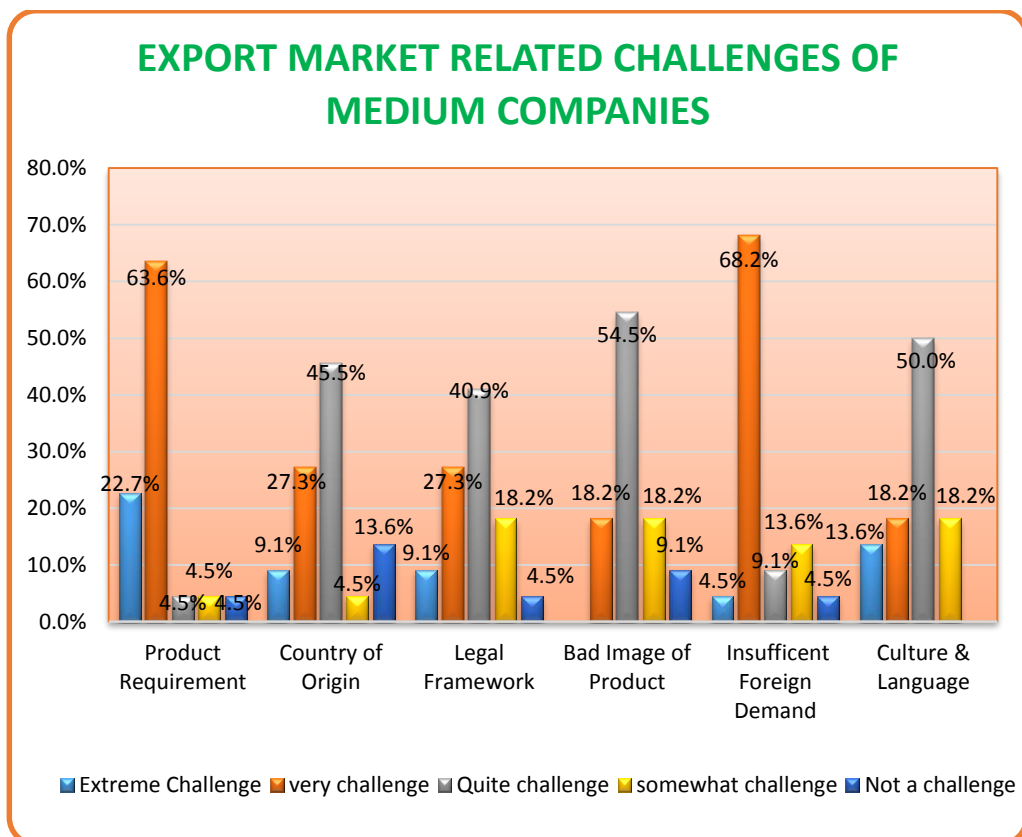


Figure 19 Export market related challenges of medium companies

Macro environment challenges

The macro environment internationalization challenges are those factors which are external to the company and those factors are beyond the control of the companies. In order to see the effects of the macro environmental internationalization challenges which have been identified in the previous studies, the respondents were asked about exchange rate fluctuation, lack of international trade agreement, lack of support from the government, the political instability in destination countries, and logistics related problems under macro environment related challenges to rate the degree of the challenges based on the given scale.

The international market competitiveness is highly depend on the exchange rate of one's country. The overvaluation of a currency may affect the competitive advantage in the international market. Figure 20 clearly shows that 42.3% the respondents considered exchange rate fluctuation as a very challenging factor whereas 17.3% consider it as an extreme challenge and about 40% consider it as quite challenging. Recently World Bank asks the Ethiopian government to adjust its currency rate, as it is overvalued by 31% in comparison to the current market value. According to World Bank the reducing of the Ethiopian birr by 10% will result in 5% sales growth and bring about 2% growth rates. But the government is still saying we are not in the position to devalue our currency, the decision depends on the wider impact on the economy (Bloomberg). The overall result shows that exchange rate fluctuation is a very challenging factor for the internationalization of Ethiopian SMEs.

The availability of international trade agreement helps the involvement of companies in the international market. The companies were asked if the challenge in relation to international trade relation affects their internationalization. Accordingly, 51.5% consider it as quite a challenging and 19.75% as a very challenging factor. Currently Ethiopia is a member of COMESA (Common Market for Eastern and Southern Africa) and has got a good trade relationship with the member countries. However, Ethiopia is not a member of WTO (World Trade Organization) as of today. The application is on process. Being a member of WTO would facilitate the

export position of the country. In addition Ethiopia is not a member of ICC (International Chamber of Commerce). Being a member would also facilitate the international trade. The overall response rate shows that lack of international trade agreement is quite a challenging for the internationalization of Ethiopian SMEs.

The support from the government is the major factor for the internationalization of SMEs success. The support of the government includes a variety of activities such as promoting the SMEs in the international market, providing financial assistance, providing market information, establishing different trade organizations, supporting with market knowledge and marketing skills, creating relationship with international companies etc. The results show that lack of support from the government is considered for as an extreme challenge by 32.7% and 36.5% find it as a very challenging factor. It shows that the support provided by the government is not sufficient to expand the internationalization activities of the SMEs. The overall responses show that lack of support from government is a very challenging factor for the internationalization of Ethiopian SMEs.

The other macro environmental factor is the political instability in the destination countries. Trading with politically stable countries will provides security for the exporter. The result findings show that 51.9% rate political stability as somewhat challenge and 25% consider it as not a challenge and 15.4% consider it as quite challenging. The responses distribution in this question spreads to all the responses and the problem depends on the destination country of the exporters. However, the overall responses show that it is somehow challenging, so that it is not among the major challenging factors for the internationalization of Ethiopian SMEs.

The last macro environmental factor that is treated in this study is the problems in relation to logistics. The availability of infrastructure facilitates and the logistic activities brings about a better performance in the internationalization activities. In order to deliver the required products on time as well as with the required standards, logistic play a vital role. According to the findings 44.2% of the respondents think that the logistics related problems as quite challenging and 26.95% rate them as very challenging whereas 21.2% consider them as an extreme challenge for internationalization. The responses show that the logistic related problems affect the

internationalization activities of the SMEs. The overall results show that logistics related problems are a very challenging factor for the internationalization performance of Ethiopian SMEs.

The macro environmental related challenges show that all the given factors are found to be a challenging factor with different degree level. The overall findings based on the given response scale show that lack of government support is an extreme challenge among the given macro environment factors for the internationalization of Ethiopian SMEs.

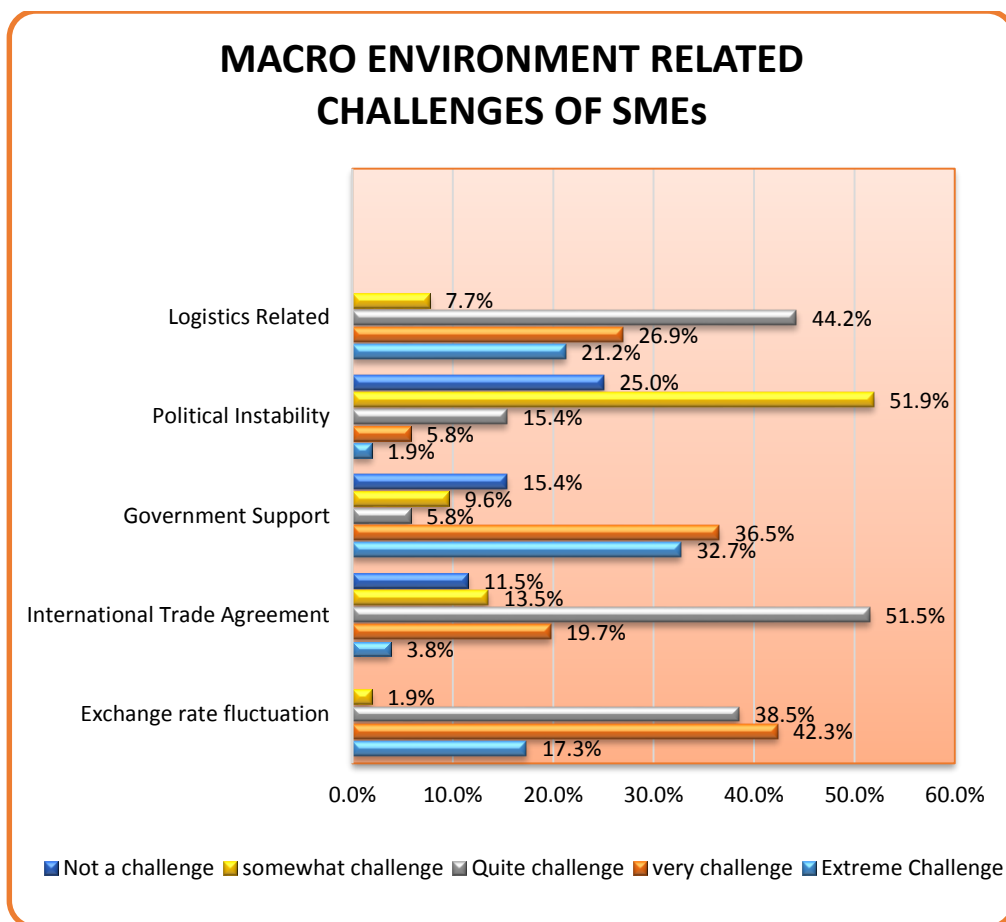


Figure 20 Macro environment related challenges of SMEs

The degree of the macro environmental challenges will again be examined based on the size of the companies in the following part.

The macro environmental challenges for small companies in Figure 21 shows that the exchange rate fluctuation is quite challenging for 43.3% of the respondents and 36.6% rate it as very challenging. The rest, 20% find it extremely challenging. The lack of international trade agreements is often seen as a problem 66.7% view it as quite challenging for small companies and the other responses are dispersed insignificantly. Government support, political instability and logistics related problems get the same percentage response of 46.7% with extreme challenge, somewhat a challenge and quite a big challenge respectively. Again, based on the given scale the overall response for the macro environmental challenges, lack of support from the government is an extreme challenge for the internationalization activities of small companies.

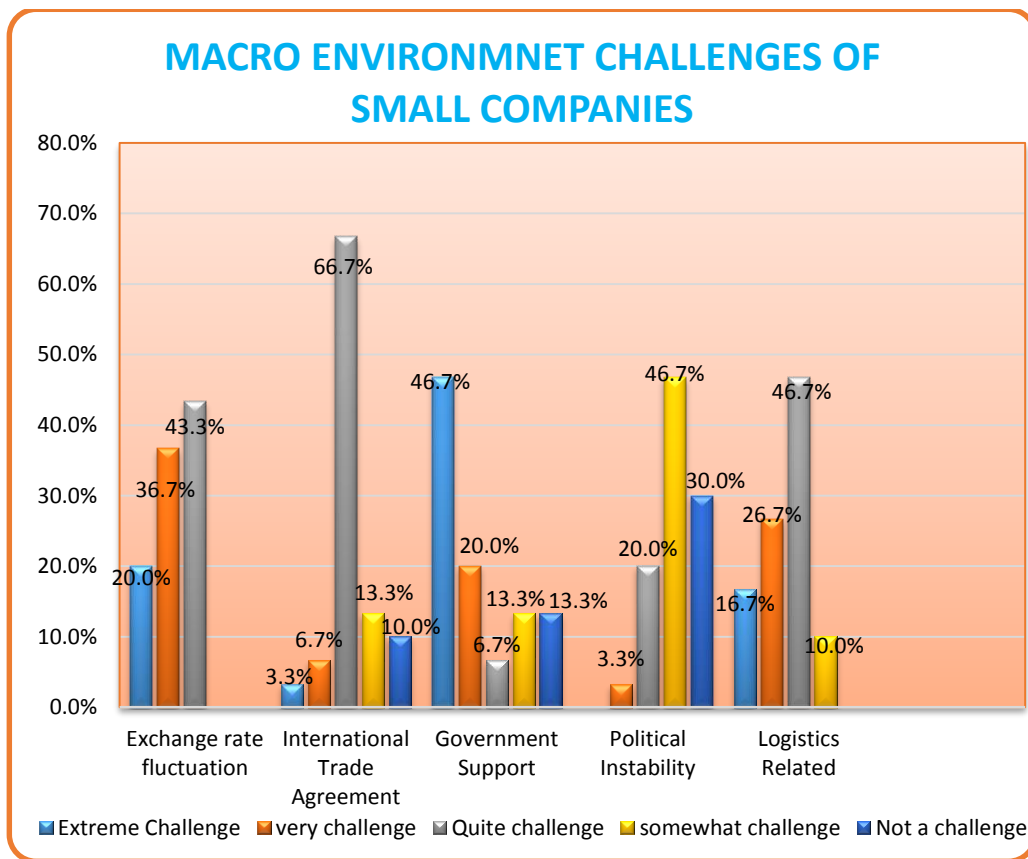


Figure 21 Macro environment challenges of small companies

The responses from the middle size companies in Figure 22 shows that the given factors are significantly challenging 50% of the respondents consider exchange rate fluctuation as very challenging and 31.8% put it as quite challenging. Again,

the lack of international trade agreement and logistics related problem rated, as 54.5% and 40.9% as quite challenging respectively. The lack of support from the government is considered as very challenging factor by 59.1% for the internationalization of medium companies. The impact of political instability is insignificant, 59.1% put it as somewhat a challenge. The overall responses based on the given scale show that from the macro environment factors given for the respondents, the lack of support from the government is a very challenging factor for the internationalization of medium size companies.

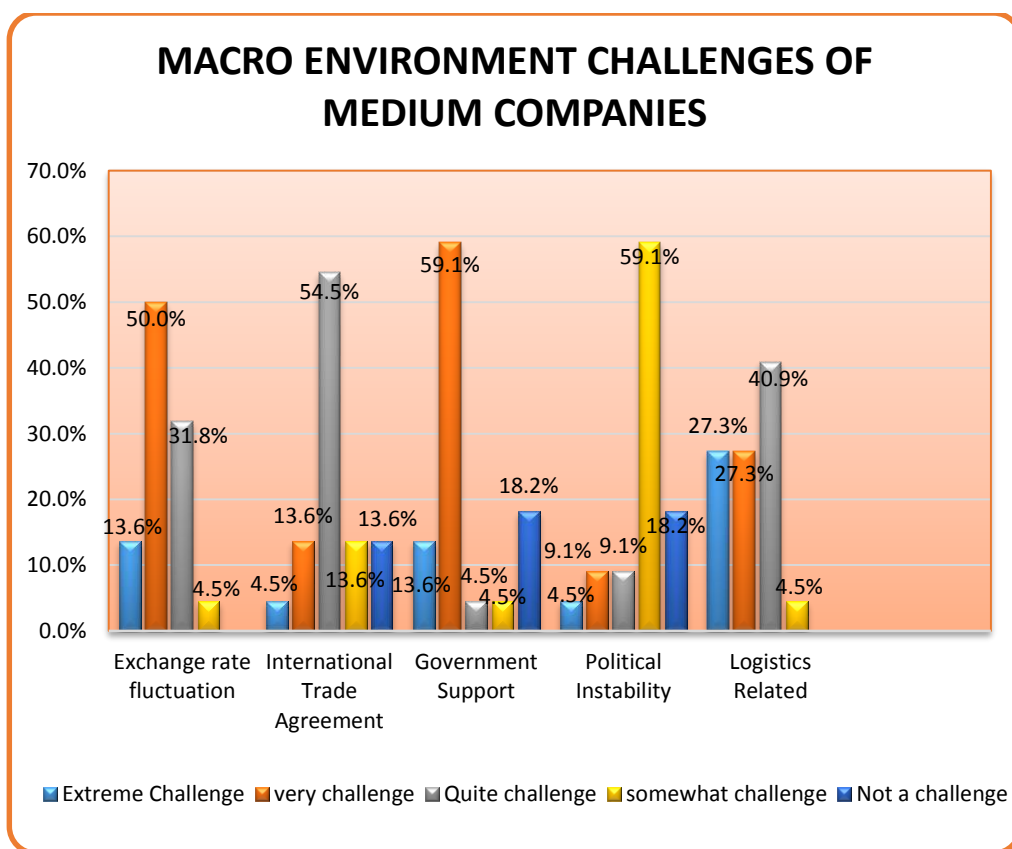


Figure 22 Macro environment challenges of medium companies

The result findings of the quantitative research show that the assumed challenges of internationalization are found to be Ethiopian SMEs internationalization challenges as discovered in the earlier studies for developing countries internationalization challenges. The degree of the challenges varies from one another and also

the severity of the challenges is found to be different for the whole SMEs and from the perspective of both the small and medium companies.

To see the difference findings a summary of the research finding based on all the responses and with the separation of both small and medium companies top five identified challenges are in Table 5.

Table 5. Top five identified challenges from the questionnaires

SMEs top five challenges	Small companies top five challenges	Medium companies top five challenges
<ul style="list-style-type: none"> ➤ Lack of Internationalization, marketing & Information knowledge ➤ The quality of the export item. ➤ Distinctive foreign consumer preferences. ➤ The products requirements in the export market. ➤ Lack of support from the government 	<ul style="list-style-type: none"> ➤ Internationalization knowledge and lack of working capital. ➤ The quality of the export item, quality standards and product adaptation to different markets. ➤ Fierce competition. ➤ Insufficient foreign demand. ➤ Lack of support from the government 	<ul style="list-style-type: none"> ➤ Lack of Internationalization, marketing & Information knowledge. ➤ The quality of the export item. ➤ Fierce competition. ➤ Insufficient foreign demand. ➤ Lack of support from the government

Comments

Table 5, it clearly shows that the top internationalization challenges are almost the same for all the participants. However, with a slight degree of difference the identification of the top five has a difference. To determine the top five, one factor

among the given factors in the categories of the challenges which are company related, product related, industry related, export market related, and macro environment challenges is selected. The selection is made based on the scale given for the responses and the one with the highest score among the same category is selected as the top of the group factors as a challenge. i.e. extreme challenge has 5 points, a very challenge 4 points, quite challenge 3 points, somewhat a challenge 2 points, and not a challenge 1 point. By multiplying the frequency of the responses by the corresponding value a particular point for the response can be found. Based on the score, the highest among the group will be selected as a top challenge for internationalization. The procedure is done for all the responses as well as with the split file for companies based on their size.

The overall response finding shows that Ethiopian SMEs have a challenge that relates to the internal factors in relation to internationalization, marketing and information knowledge. In addition the quality of the export item is found to be a challenge for internationalization.

The availability of distinctive foreign consumer preferences and the products requirements in the export market is another external factor challenge for the Ethiopian SMEs internationalization activities. The lack of support from the government is also found to be a challenge for the internationalization of Ethiopian SMEs.

3.3 Qualitative Study

The second part of the research methodology is the application of qualitative study by conducting an interview with three SMEs. The interview groups comprises of agricultural related product exporter, a manufacturer and an exporter, and another different item exporter. The respondents will be two medium size and one small company. The aim of the interview is to find out the actual challenges which are experienced in different phases of internationalization in order to cross check the identified challenges in the quantitative research and to find out other chal-

lenges for internationalization to provide a recommendation to minimize the challenges in their future internationalization activities.

3.3.1 Research method

An interview, which is a common way of obtaining detailed information, is applied in this research. The application of the interview method on a research gives a variety of advantages. An interview is considered as a relatively straight forward to arrange, and the process can be understood by the respondents. The interview processes also help to produce a great deal of data. Of course, data management should be considered properly in order to have sufficiently valuable data (Oliver, 1997).

The significant aspect of the interview is the availability of sufficient data for detail analysis which can be difficult to find in any other way (Oliver, 1997). The process of an interview is time consuming in comparison to other methods. Due to the time factor it will be difficult to consider large group of respondents for the generalization of the results.

The qualitative research helps to support the finding of the quantitative result. The use of qualitative analysis provides in-depth insight for the research problem and help to make a conclusion by combining the results of quantitative and qualitative analysis.

The interview questions are designed to find out internationalization challenges in different phases of the internationalization involvement of the companies. The focuses of the questions were previously designed so that the researcher gives guidelines and facilitation for the respondents to come to the main points of the research problems.

3.3.2 The interviews

The participants for the interview groups are an agriculture related exporter, manufacturing and exporting, and general exporters. Having different groups of participants help to find out the real challenges experienced in their internationalization

activities and they can be considered as a representing sample of the target population under this research. The identification of the interview group is not going to be disclosed. The case companies sector will be considered for the analysis. Two medium company representatives and one small company representative are included in the qualitative study.

3.3.3 Analysis of the interview result

Interview 1 General exporter

The company was established in 2006. The company engages in exporting of different items, basically agricultural products and other commodities as well as different products that the international market requires. It exports to different markets. So that the focus markets include Europe, North America, and Africa.

The company has experienced challenges of finding the appropriate customers for their business. Middle men between the actual customers and exporters make it a problem of selling at the appropriate price. The financial capacity was also the most challenge as they did not have sufficient financial capacity to export to more countries that the market needs and the export capacity was hindered by the limited amount of financial resources.

The government provides little support so that it is not to the level that the sector requires. Different problems in the area of the supply chain also exist. In the supply chain it is becoming very difficult to find export standard quality products. The production mechanism and the knowledge of the farmers is a problem. Different countries have a quality standard that the international market requires.

To solve the problem the company is trying to work with farmer cooperatives which have an awareness of producing and harvesting the products. The company is investing extra capital to get the quality standard products for the export market. The export business in general needs improvement. The system is not well integrated and requires adjustments to the level the international market is performing.

Some of the challenges changed during internationalization but still the price fluctuates frequently and general export systems have a problem. Although the commodity exchange is trying to solve the problems, still there are quite big problems to meet the export demands. The price of some commodities in the local market is more than the export price, so that the demand for the products in the local market is much better than the export market. This creates a shortage for the export items as the suppliers want to sell for the domestic market. In addition the agricultural related products depend on the climate so that if the climate changes it will create a huge impact on the supply and enhances shortage for the export product.

The most challenging factor for the company is related to the finance and institutions that can support the export business. In order to have much export products money plays a vital role as most of the export items are seasonal they need to be stored before export so which requires much money. There is no any financial institution to support the internationalization activities as well as finding loans to expand the export market is challenging. Although the government needs the foreign currency from the export market, the banks do not have sufficient money to lend. Currently the government is undertaking huge projects as the country is in need of money. In addition the policy is supporting the manufacturing sector to take loans.

The future challenges can be solved if international financing institutions such as World Bank are supporting the internationalization activities of the country. In addition the government support in finding and creating more market and finding the appropriate customers to sell at the appropriate price is a remedial solution for the problem and facilitating the export business in the level that the international market needs with financial support and arranging loans would be supportive.

Interview 2 Manufacturing and exporting

The company was established in 2010 with foreign investors and manufactures leather goods and exports to different markets. The company mainly exports to Europe, and Asia. The internationalization activity was started with the export of crust leather. The products are used for different garments and gloves. Due to the

new regulation set by the government the company was asked to add value for the export items and they start to export final products to the market.

The company was established to meet the international market, however, during the startup phase they experienced a problem of importing chemicals and export related problems with the customs were mentioned. As the company was new during that period there was resistance in getting support from the concerned bodies. The company is selling to the manufacturing companies in the target markets. Finding new customers for the company was a challenge; all the export items went to those importing companies which have a relationship with the owners.

In the middle of the internationalization phase when the new regulation comes to effect, the production takes too much time and meeting the needs of different customers becomes a problem. The customers prefer to get the crust and adjust it to their own way and create a problem in relation to the quality standard set for the international market.

The leather sector requires a lot of time to get the permits to import the chemicals. Usually it takes about 3 months. The logistics problem was also a case not to internationalize as expected.

The company had a financial problem to meet the demand of the international market. Creating brand value for the products and expanding the market is also becoming a problem. To solve the problem in relation to the financial problems the government provides a pre shipment loan for the sector. Recently the logistic problem has improved due to the implementation of the multi-modal arrangement. The government also helps in getting the chemical. The support from the industry minister and leather institution is encouraging as the sector is manufacturing and exporting, the support from the government is attractive.

Generally the problem in the sector company is that the market is taken by other country companies and finding the appropriate customers and the price setting depends on other companies in the export market. The middle companies between

the exporter and actual customers minimize the profitability as well as competitiveness of the company. The marketing, information and internationalization knowledge are the reasons not to compete internationally in the way that is expected.

Interview 3 Coffee exporter

The company starts coffee exporting in 2005. It exports to Europe, USA, and the Arabian countries. It is one of the major coffee exporters in the country.

Before they started to internationalize their business they have experienced problems in relation to the general business environment, which is external business environment and they were ready for the challenges. The price of coffee is set by the New York market so that they found this to be a challenge as the price set at the Ethiopian commodity exchange varies from the international market.

During their internationalization phase they experiences challenge in relation to price variation, the general business environment and the economic situation in the world affects their business. In addition to the general business environment, the delivery problem with competitive price is another problem in the sector. It was mentioned that delivering like developed countries is a bit difficult for Ethiopia as the production of coffee is not modernized.

Those challenges continue during their internationalization phase as well as other problems in relation to the supply chain. The shortage of quality standard product is one factor in internationalization performance. The requirement of the customers in the importing countries makes exporting so competitive and customers are becoming price sensitive so that the competitiveness of the business is a bit challenging.

Regarding the customer, as long as delivering a quality product at a competitive price on timely delivery the need for Ethiopian coffee is there and customer problem is not an issue, but being not productive is one factor for not internationalizing much more.

The quality standard problem is the major challenging factor for internationalization success. In order to compete in the international market producing much quality with modern production facilities and exporting at a lower price creates competitiveness in the international market.

The overall findings of the qualitative research are presented in Table 6.

Table 6. Internationalization challenges of Ethiopian SMEs in different stages of the internationalization phase.

Before Internationalization	During internationalization	After Internationalization
<ul style="list-style-type: none"> ➤ Finding appropriate customer ➤ Financial problems ➤ Minimum government support ➤ General business environment ➤ Price setting ➤ Access to market ➤ Marketing and information knowledge ➤ Internationalization knowledge ➤ Cultural and language difference 	<ul style="list-style-type: none"> ➤ Production problem ➤ Supply chain ➤ Quality standards ➤ Logistics problems ➤ Market expansion ➤ Financial problem ➤ Price variation ➤ General business environment ➤ Competitiveness ➤ Inadequate foreign demand ➤ Developing the brand 	<ul style="list-style-type: none"> ➤ Competition ➤ Productivity ➤ Quality ➤ Efficiency ➤ Inadequate institutions that facilitates internationalization ➤ Lack of financing institutions ➤ Local demand increase ➤ The macro environmental factors

Comment

The qualitative research results show that Ethiopian SMEs have a variety of challenges in their internationalization activities. The top challenges which were identified in the quantitative research also reflected during the thorough discussions with the representing interviewed company.

Identifying the challenges based on the stage of the internationalization phase helps to see the overall aspects of the challenges. The nature and kind of the challenge may be the same in different stage of the internationalization. However, the degree of the challenges may be different.

During the early stage of the internationalization Ethiopian SMEs have challenges in relation to marketing, internationalization and information knowledge. This was referred as market knowledge aspect (Johanson & Vahne, 1978), that the knowledge about the foreign market is the basic aspect of internationalization involvement. Welch and Luostarinen (1988) also put as the critical factor for internationalization. Success depends on the knowledge capability of the firm. The knowledge factors relates to the adequate foreign market knowledge, foreign operation techniques, how to do business in foreign market and about the people in the business environment. However, acquiring these information and understanding is difficult, costly and it takes time as it is learned through experience and learning by doing process and relates to the stage mode of internationalization (Welch & Luostarinen, 1988). Having a properly made a marketing research and getting appropriate and timely information with the require internationalization knowledge would help better for internationalization success. The other aspect relates to the financial capability of the SMEs. Financial capacity relates to the resource of the firm (Barney, 1991). The internationalization activity needs to have adequate working capital, these aspect was a challenge for not perusing to the international market. The shortage of working capital to support internationalization was also found out to be a challenge by OECD, 2007. The lack of finance

for internationalization was also found out as a top challenge by Neupert et al 2006.

The support from the government is also identified as a problem. Due to capacity problem the government may not be able to support all SMEs. Hutchison et al (2009), also found out that the support of the government for UK's retailers were insignificant for internationalization. Furthermore Shamsuddoha, et al (2009), also found out that the importance of government support for internationalization plays a great role from the perspective of the Asian developing nations.

The general business environment is another challenging factor in the early stage of the internationalization activity. Unless the company is ready for the business environment that wishes to peruse the success rate will be in question. Well prepared and information and knowledge based internationalization activity will minimize the challenges. Welch and Luostarinen (1988), put it as “ The need to develop relevant knowledge and skills and communication networks, as well as to reduce risk and uncertainty exposure, interact and play a key role at a given points in constraining international move. Over time, however, the inevitable changes in these areas consequent up on foreign activities also change the capacity of the company to contemplate and carry through more involving commitments.”

The other identified challenge relates to the culture and language of the country where they want to internationalize their business in. Internationalization requires a better understanding of cross cultural knowledge. Most of Ethiopian SMEs find out the problems in relation to the cultural difference affects their internationalization. The lack of knowledge due to difference between countries with regard to language and culture is an important factor for decision making in relation to internationalization operation development and these differences relates to the major characteristics of international as it is differ from the domestic operation (Johanson & Vahlne, 1978).

The price setting for the international market and access to the market is also identified as a challenge these challenges relates to the internal capabilities of the

SMEs internationalization activity. Having a well-trained human resource will help to solve such problems in relation to information.

During the internationalization phase, some of the problems are still there, but the production capability for the international market is found to be a challenge which relates to the supply chain related problem in the business environment. The insufficient production capacity of SMEs internationalization problems were also found by Arteaga- Ortiz & Fernandez- Ortiz, 2010, as resource barrier of internationalization. The quality standards set by the importing countries and meeting those standards is another challenge which is identified during this stage. The logistics problems to deliver the require items on timely bases is another challenge for the SMEs. Neupert et al (2006), also found out that SMEs in transitional economic countries faced internationalization challenges in relation to product quality acceptance and logistics management. Expanding the market to other countries and building the brand names is another challenge for their internationalization. Most of the companies export to those countries they start business with and also for the same customers. Developing their business to other customers in different geographic market is becoming a challenge this again relates to the knowledge aspect of the internationalization. Barney(1991),also put brand names, skill manpower, in-house knowledge and technology, machinery, trade contacts are the resource of the firm to expand internationalization activity to have a sustainable competitive advantage.

The general business environment is again identified as a challenge during the internationalization phase as well. The economic situation of the importing countries highly depends on sales of the exporting companies. One way or another, the impact on the internationalization of companies is significant. In order to develop and expand their internationalization, financial problem is also, again, identified as a challenge. In addition the demand for the products is also mentioned as a challenge, but creating the demand is another capability of the companies so that relying on the same customers is a big problem for insufficient demand. Johanson & Vahnle (1978), state that the economic effect is associated with in the increase in the scale of operation on the market, and the uncertainty effect concerns the

market uncertainty, the decisions makers' perceived lack of ability to estimate the present and future market and market - influencing factors. They further argue that the market uncertainty can be reduced through increased interaction and integration with the market environment by enhancing the communication with the customers, providing new service activities were mentioned.

In the last phase of the internationalization activity Ethiopian SMEs face challenges in relation to competition. Due to globalization companies all over the world are competing over the same market. In order to compete successfully in the international market, the productivity of the Ethiopian SMEs is becoming another challenge. The production facility, the application of recent technologies minimizes their competitiveness. Leonidou (2004), put as firms may enjoy competitive advantage in the domestic market, but when they deal with the international market they tend to have an intense and more complicated competition due to the fact that international competition originates from various sources and the base of competition vary from firm to firm. Furthermore the marketing strategy that is adopted for different market influences the competition in the international market. The quality standards also relate with the competitiveness of the companies. The SMEs identified the export quality product as a challenge in this phase of internationalization as well. The product adaptation based on the requirement of the customers in domestic market may be applied due to quality standards set by the countries. This is a serious problem for countries with consumers who seek better quality than that offered in the firm's home market (Leonidou 2004).

The lack of adequate institutions that can facilitate the internationalization of Ethiopian SMEs is a big challenge after the companies start to internationalize their business. SMEs supporting institutions are widely helping companies in other part of the world, but Ethiopian SMEs do not have such facilities. Furthermore, the lack of financing institutions to encourage internationalization activity is a serious challenge at this stage. The concept of internationalizations of SMEs is not even properly treated in Ethiopia. The government is trying to support those micro firms for the domestic market.

The increases in the local demand on the exportable products makes the internationalization activity challenging. This, again, relates to productivity and efficiency. The production capacity for the export items need to be sufficient to meet the demand in the international market. Eventually, the macro business environments also found to a challenging situation for Ethiopian SMEs internationalization.

4. CONCLUSION AND RECOMMENDATIONS

In the last part of the study, the conclusion of the research with the findings and recommendation for the concerned bodies as well as suggestions for future studies will be forwarded.

4.1 Summary and finding of the research

The aim of the research was to identify the potential internationalization challenges of Ethiopian SMEs. To find out the possible internationalization challenge both quantitative as well as qualitative research methods were applied. The questionnaires were designed properly to find out the intended result and the leading questions and unclear concepts were excluded after the pre testing being checked. The contents of the questionnaires were designed to find out the challenges of the internationalization based on the selected theory for the research. An earlier research made by Tesfom and Lutz (2006), shows that SMEs of developing countries have a common internationalization challenges, so that the researcher decide to check if those identified challenges are a challenge for Ethiopian SMEs or not, and find out if there are other challenges which affect internationalization using the interview. The result finding shows that the pre identified internationalization challenges of developing countries are found to be Ethiopian SMEs challenges with varying degree of challenges among themselves. The research findings validity and reliability has been proofed in such a way that the earlier research made and the research finding of this research corresponds to each other. In addition, the contents of the questionnaires as well as the respondents were selected properly so that, the valid responses were able to get. Furthermore, by incorporating both the quantitative and qualitative research methods, the validity of the research finding be proofed as the quantitative findings were again reflected on the qualitative research during the interview, so that valid and reliable responses were able to get out of the selected methods of researches.

The quantitative research was made thoroughly to identify the challenges from all the participants' point of view as well as differently from the small and medium

companies' perspective to help those companies by providing the required support from the concerned bodies.

The quantitative research was made based on the earlier classifications of developing countries internationalization challenge by Tesfom and Lutz (2006). They grouped these challenges into five groups which correspond to both the internal and external problems. These factors were related to internal company related challenges, product related challenges, industry related challenges, export market related challenges and macro environment challenges. Different factors under each group of challenges were given for the respondents to rate the degree of the challenges based on the given scale. All the given factors were found to be a challenge for Ethiopian SMEs as discussed under the analysis part.

The main finding of the quantitative research relate to: marketing, internationalization and information knowledge's, the quality of the export item, distinctive foreign consumer preferences, the product requirements in the export market and lack of government support were the top challenges which are identified from all the respondents.

The research findings show that Ethiopian SMEs have both the internal as well as external challenges. These challenges vary from industry to industry as well as firm size. The internationalization challenges also found to be related one another. The effect of one challenge is reflected on the other challenges to be specific both the quantitative and qualitative research findings directs to knowledge related challenges: marketing, internationalization, information, branding, pricing, culture and language, the quality of the export items and quality standards in foreign market, working capital problem, production and efficiency, local demand increase, logistics and supply chain, inadequate demand, competition, lack of sufficient institutions to support internationalization, lack of financing institutions, lack of support from the government and general business environment are the main findings of this research.

4.2 Recommendations

Internationalization of SMEs plays a vital role for the economic development of the country. SMEs have a variety of challenges that hinder their internationalization. To solve such problems and increase their international involvement, a lot is expected from different concerned bodies to generate adequate foreign currency.

In order to solve knowledge related problems SMEs need to hire a competent personnel who can support the internationalization activity of the companies. Educational institutions need also include international business education in to the curriculum and focusing on foreign trade education would help to minimize the problems and a will help to have competent SMEs in the international market. Furthermore, SMEs need to use the internet to market themselves as well as utilizing the social medias to expand their business can help to have new customers.

The quality of the export item needs improvement and productivity needs to be maximized. Ensuring on quality standards and producing in the way the international market require, brings about a better positon in the international market. Working on the quality is expected both form the SMEs perspective as well as from the government side. The government is expected to do a lot on those areas. Helping those SMEs and ensuring quality products with efficiency makes the country more competitive.

The export items need to be adjusted in the way the international market needs, SMEs need to focus on value adding on the products by processing and packaging that would increase their competitiveness in the international market. Learning from the experiences of the developed countries SMEs would help to transfer knowledge to Ethiopian SMEs. The government needs to make arrangements and agreements for Ethiopian SMEs to share the experience of the developed countries SMEs.

The policy makers' also need to see the impact of the exchange rate and export performance. By increasing the production level of the country to the international

market demand, the country can benefit to sell more if a less valued currency is adjusted. But, having adequate production for the international market is the first thing to do.

Financial problem is one factor for SMEs internationalization. The government is supporting big exporters, but the support for SMEs is minimal. Encouraging SMEs involvement in to the international market would benefit a lot. Currently the government is undertaking huge infrastructure projects, so that financing all the SMEs is a bit challenging, however, by working with different international organizations which support internationalization of SMEs, a support for Ethiopian SMEs can be provided. In addition to the financing institutions, the country needs to have different institutions which work to find market for SMEs, export promotion activities and related services.

Agricultural products are the major source of the country's foreign exchange. The commodities need to have a special treatment and SMEs need to focus on value adding approach. Although the demand in the international market is available, being competitive is one of the best strategies for success. Producing to the level that the market require and be able to deliver quality product with a competitive price is one of the best approach that all the concerned bodies need to work with. The countries as well as the SMEs need to prepare for meeting the seasonal demands of the agricultural related products.

The SMEs and the export association and other concerned government bodies need to work in collaboration. The government is expected to provide a variety of support and assistance to enhance the internationalization performance. In order to have a wider business transactions all over the world, the country needs to be a member of WTO (World Trade Organizations) and to have a harmonized trade relations being a member of ICC (International Chamber of Commerce) is recommended and the government should keep on working on the issue.

Finally, international organizations which are working in the area of SMEs development need to support Ethiopian SMEs for a better performance and helping to

have credit facilities for their internationalization activity would benefit for the country's economic development.

4.3 Suggestions for future research

The concept of internationalization is not adequately researched in Ethiopia. This is the first study focusing on internationalization challenges of Ethiopian SMEs. Participating on this area and working different researches would help to have awareness about Ethiopian SMEs. As this research is an overview of the internationalization challenges, an industry specific challenge in different sectors would help to find out a variety of problems to solve different issues in the internationalization activity.

It was identified that Ethiopian SMEs have a knowledge related challenges to internationalize their business. It is recommended to prepare an internationalization guideline for the SMEs in order to support their internationalization activity and performance.

Evaluating the impact of export support for the internationalization activity can also be one area of research in the future. In addition looking at the internationalization activity of Family owned small and medium enterprises (FSMEs) are also another research area. The impact of networking on internationalization performance of SMEs can also be another area of research.

The influencing success factors for internationalization can also be researched from the Ethiopian SMEs point of view. The marketing strategies of the SMEs for internationalization success can be another direction for future research.

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APPENDICES

Appendix 1

Questionnaires in English

General information

1. How many employees does your company have?

- | | |
|-----------|------------------|
| 1. 1 - 5 | 3. 31 - 250 |
| 2. 6 – 30 | 4. More than 250 |

2. How much is the annual revenue of your company?

1. Under 100,000 birr (\$ 5000)
2. Between 100,000 birr and 1,500,000 birr (\$5000 - \$75,000)
3. More than 1,500,000 birr (\$ 75,000)

3. When did your company established in Gregorian calendar (G.C)?

- | | |
|----------------------------|----------------------------|
| 1. Before 1900 G.C | 3. Between 1950 – 2000 G.C |
| 2. Between 1900 – 1950 G.C | 4. After 2000 G.C |

4. How long does your company involve in international business?

- | | |
|------------------|-----------------------|
| 1. 1 – 10 years | 3. 21 – 30 years |
| 2. 11 – 20 years | 4. More than 30 years |

5. Which sector does your company involves?

1. Manufacturing and exporting
2. Agricultural and related product exporter
3. Other export products

6. Which geographical market your company exports more?

1. Africa

4. North America

2. Asia

5. South America

3. Europe

6. Oceania

Internationalization challenges related questions

Different potential challenges of internationalizations are given below please choose from a scale of 1 to 5 where,

5 = Extreme challenge, 4 = Very challenge, 3 = Quite challenge, 2 = Somewhat challenge, and 1 = Not a challenge

Company related challenges

7. Lack of marketing knowledge and information 5 4 3 2 1

8. Lack of adequate working capital for internationalization 5 4 3 2 1

9. Lack of trained and experienced human resource 5 4 3 2 1

10. Lack of knowledge about internationalization of your business 5 4 3 2 1

Product related challenges

11. The quality of the export item 5 4 3 2 1

12. The quality standards set by importing countries 5 4 3 2 1

13. Adaptation of products to different markets 5 4 3 2 1

Industry related challenges

14. Distinctive foreign consumer preferences	5	4	3	2	1
15. Unfamiliar business protocols and practices	5	4	3	2	1
15. The imposition of tariff barriers	5	4	3	2	1
17. Fierce competition	5	4	3	2	1

Export market related challenges

18. Product requirements in the export market	5	4	3	2	1
19. Country of origin problems	5	4	3	2	1
20. Difference in legal and regulatory framework in importing countries	5	4	3	2	1
21. Bad image of products in foreign market	5	4	3	2	1
22. Insufficient foreign demand	5	4	3	2	1
23. Cultural and language differences	5	4	3	2	1

Macro environment challenges

24. Exchange rate fluctuation	5	4	3	2	1
25. Lack of international trade agreement	5	4	3	2	1
26. Lack of support from the government	5	4	3	2	1
27. Political instability in destination countries	5	4	3	2	1
28. Logistics related problems	5	4	3	2	1

Open ended questions for the interviews

1. What are the key challenges experienced before start to internationalize your business.
2. Does these challenges changed during internationalization phase? What other challenges happened during internationalization of your business?
3. What is the greatest challenge that you have encountered when doing business internationally?
4. What do you think about challenges in the future?