

Internationalisation Barriers of Small and Medium-sized Manufacturing Enterprises in Ethiopia: Leather and Leather Products Industry in Focus

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Abstract

The purpose of this study was to examine internationalisation barriers of manufacturing SMEs operating in Leather and Leather Products Industry located in the capital city of Ethiopia. The small and medium sized enterprises (SMEs) sector in Ethiopia is a significant group within the economy in terms of firm numbers and total employment. However, the SMEs sector's share of exports is disproportionately small, which raised considerable research concerns. Firm export propensity was the dependent variable and internal and external export barrier factors were used as explanatory variables. The study was conducted through mixed research design of quantitative survey and case study. From the population of manufacturing SMEs operating in the Leather and Leather products Industry, a sample was selected through the use of stratified random sampling to ensure the effective representation of the population of exporting and non-exporting SMEs in the capital of Ethiopia.

In order to complement survey results nine (4 exporting and 5 non-exporting) SMEs were selected through critical case purposive sampling and an in-depth interviews were conducted. Statistical package for the social sciences (SPSS 20) was used to analyse the quantitative data whereas, qualitative data were analysed manually. Exploratory factor analysis with Varimax rotation and Binary logistic regression analysis are the analytical methods used. The statistical result showed that, logistics problem, insufficient finance, functional barriers, lack of export knowledge and information, procedural barriers and international trade barriers are the most significant obstacles of export trade in Ethiopia. The overall results revealed that explanatory variables used in the analysis significantly predict the dependent variable at 95% confidence level. Taken together, these results prompted the presentation of numerous implications for theory, practice, and future research. Finally, the paper recommended that internationalization of SMEs has to be encouraged by mitigating both internal and external barriers identified in this study. Achievement of this will make manufacturing SMEs to be more competitive in export trade that results in a better positioning of Ethiopia in global leather and leather products market.

1. Introduction

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

phenomena of industrial cluster of footwear manufacturers in Addis Ababa are exemplary in this regard (UNIDO, 2008).

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

It is known that, there are more animals producing hides and skins in Ethiopia than in any other countries of Africa. With an estimated 40 million head of cattle, 30 million sheep and 20 million goats, it would appear that, there is little to stop Ethiopia from playing a major role on the international market for leather products. In fact, hides and skins represent one of Ethiopia's largest earners, after coffee, oil seeds and spices. It produces some of the world's most exclusive leathers: Cabretta (used, for example, in golf gloves), Bati (softsuede) and Selallie (high quality sheepskin) (UNIDO, 2008). This in itself is sufficient to merit the study of Leather and Leather Products Industry. Moreover, one cannot confidently say that Ethiopia has a large competitive advantage in the leather industry because it ranks number one in Africa and 10th in the world with respect to livestock population. In addition, the SMEs working in the Leather sector even though working mainly with backward technology has built up some advantages over time, such as skills, networks, infrastructure and institutions. Aboveall the sector provides ample employment, and has the potential of increasing it substantially in global arena.

Nevertheless, Ethiopian exporters encounter different challenges when planning to join export market. Even though the country is geographically at ideal location for different markets, the competitiveness of firms in global market is still problematic. Problems of defined brand, product diversification and foreign currency shortage are still one of the critical factors to be considered. Existence of other strong competitors in the leather industry like India, Italy and china makes competition for Ethiopian firms a further more difficult task. Shortage of working capital, finance and inter-firm cooperation as well as lack of international marketing knowledge added the burden to Ethiopian SMEs (Ciuriak, 2010; Azmera, 2013). Thus, the objective of this study was to thoroughly examine internal and external export barrier factors constraining internationalization of Ethiopian small and medium-sized manufacturing enterprises operating in leather and leather products industry in Addis Ababa Ethiopia. The study is important because in the industrial strategic development plan of Ethiopian government the leather and leather products sector is one of the seven priority areas identified as potential for the industrialisation of the country taking in to consideration the resource advantage of the country and the job creating opportunities for its nationalities(GTP,2010/11).

The research question answered in this study is:

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

The objective of the study is;

To examine internal and external internationalisation barriers of manufacturing SMEs in the leather and leather products industry in Ethiopia.

Accordingly the research intends to test the hypothesis that:

Ho₁: Internal export barriers as measured by informational, functional and marketing related factors do not negatively associated with the likelihood of SMEs internationalisation in Ethiopia.

Ho₂: External export barriers as measured by procedural, task, governmental and environmental related factors do not negatively associate with the likelihood of SMEs internationalisation in Ethiopia.

The rest of the paper is organised as follows: section two presents the literature review and overview of Ethiopian economy as well as challenges faced by manufacturing SMEs operating in the leather and leather products industry. Empirical methodology, analysis and hypothesis testing are performed in section three, section four deals with results and discussions while section five presents limitations of the research and directions for further research.

2. Literature review

Internationalisation is a term that has been used widely in the literature and is not only confined to exporting but also encompasses trade, cross-border clustering, collaboration, alliances, subsidiaries, branches, and joint ventures that extend beyond the home country environment (Singh et al. 2010). However SMEs mainly internationalise through exporting due to the minimal business risks and the low resource commitment (ibid). Small Enterprises varied in their involvement in internationalisation and at which age of their life (Singh et al. 2010), while many businesses are globalizing at an earlier age in comparison to previous decades (Andersson et al. 2011). Internationalisation is found to be a significant aspect of the maximization of business opportunities and over the last few decades, many SMEs started it as a requirement of business success (Rundh, 2007; Saixing et al., 2009).

Export barriers can be defined as the attitudinal, structural, operational and other constraints that hinder a firm's ability to initiate, develop or sustain international operations (Koksal and Kettaneh, 2011). It is important to achieve a better understanding of export barriers, since these barriers waste the resource of firms and threaten the efficiency and effectiveness of a firm's operations. The negative impact that export barriers can have on medium and small enterprises' internationalisation behaviors and activities has attracted the attention of many researchers in international business (ibid). Studies have employed different perspectives to establish a set of notable barriers, especially with regard to the specific industry or geographical area. Accordingly, this study aimed at understanding different internal and external export barriers faced by Ethiopian SMEs due to the scarcity of past studies in the country in the area of SMEs internationalisation.

Export barriers are understood as the internal and external constraints that dissuade firms from initiating and/or expanding export activities (Leonidou, 2004). Export barriers are found in many forms and are subject to different categorisation. However, most barriers fall under the following dimensions: lack of knowledge and information, lack of strategic resources to undertake export operations, and exogenous barriers (Arteaga-Ortiz & Fernandez-Ortiz, 2010). Informational barriers relate to problems in identifying, selecting, and contacting international markets because of information inefficiencies. Examples of these barriers are locating and analysing foreign markets, finding international market data, identifying foreign business opportunities, and contacting customers abroad.

Functional barriers refer to inefficiencies in functions within the firm, such as human resources, production, and finance. These barriers generally have a moderate impact on export behaviour. Examples are limited management time to deal with export, inadequate export personnel and shortage of working capital to finance export (Leonidou, et al., 2007). Export knowledge and informational barriers are associated with unfamiliarity with important aspects of export activities and export market environments. The barriers are found in several dimensions. They can be a result of difficulties in identifying export opportunities (Pinho & Martins, 2010), a lack of understanding of foreign culture and business practices, or the lack of knowledge on the availability of export support programs (ibid). Others are in the form of

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

A number of researchers (Rutihinda, 2008; Pinho and Martins, 2010; Ortiz and Ortiz, 2010) included limited or insufficient information on foreign markets in their study of barriers. Some researchers tested the difficulty to gather information that is accurate on the foreign market (Craig and Julian, 2005) while information on products and services is highlighted by Ortiz and Ortiz (2010). Export knowledge and information barriers are particularly salient in Ethiopia due to two main reasons. First, the market for information in Ethiopia is underdeveloped because the institutions providing export market information or facilitating its acquisition are inadequate and/or inefficient. Second, the majority of firms in Ethiopia are small to medium (CSA, 2012). Hence, they lack other resources required to invest in knowledge and information generation activities such as research and development (R & D) and, information and communication technologies. Based on this evidence it is reasonable to suggest that internal information and knowledge related barriers, financial barriers, managerial and marketing barriers will negatively affect export behavior of Ethiopian firms. On the other hand, external barriers originate from the home and host country environment the firm operates in (Leonidou, 2004). Different categories of external barriers are: procedural barriers, governmental barriers task barriers and environmental barriers (ibid).

2.1 An overview of Ethiopian economy

With a population of 84 million in 2012, Ethiopia is the second largest country in Sub-Saharan Africa. It is a federal country composed of nine regional governments and two city administrations. Most (84%) of its people live in rural areas making agriculture one of its dominant economic sectors. Ethiopia is among the fastest growing economies in the world and has maintained an average GDP growth rate of 11percent in the last ten years (UNIDO, 2013).Ethiopia is a large, diverse and complex country with political dynamics resulting from its unique history. Up to 1991, the country had seen a century of increasing state centralisation, underpinned by a political culture reflecting strong hierarchies and social stratification that had deep social roots (ibid). The current government, led by the Ethiopian People's Revolutionary Democratic Front (EPRDF), came to power in 1991 after almost two decades of armed struggle, overthrowing the repressive military Dergue regime. EPRDF introduced three key reform processes: federal decentralisation of the previously socialist state; market liberalisation of a command economy; and democratization under a multi-party constitution. Each of these reform processes has progressed to different degrees and enjoyed some notable successes, but also faced significant constraints (NBE, 2009).

Export growth of goods and services has been strong, averaging close to 10 percent annually during 2000-10. Agriculture remains a major earner of foreign exchange, accounting on average for about 90 percent of the country's exports over the past decade. Ethiopia has made good progress in growing and diversifying processed exports, with double digit growth volumes in export categories such as leather and leather products, and meat and meat products over recent years. The economy, however, remains dependent on primary products (principally coffee) to a larger extent than other African and Asian comparators. This may change in the coming years, if Ethiopia is successful in maintaining recent growth of foreign direct investment (FDI) (NBE, 2011).

2.2 Ethiopian leather and leather products industry

Leather industry in Ethiopia is the long lived and more established manufacturing venture in the modern as well as traditional mode of production. It is an indigenous industry not only

because it has been practiced to produce traditional artifacts since long ago because the country is well-endowed with the basic raw materials, manpower and local ownership and to some extent with machinery and technological know-how (UNIDO, 2008).

The leather industry bases itself on the country's livestock resources. Indeed Ethiopia possesses one of the world largest livestock populations of which is 52 million cattle population that makes the country ranking 1st in Africa and 6th in the world, 27 million sheep population which makes 3rd in Africa and 10th in the world and 23 million goat population which makes 3rd in Africa and 8th in the world. The off-take rate for cow hides 13.87%, goat skins 27.34% and sheep skins 40.29%. The hides and skins supplied to the tanneries are reached 1.4 million cow hides, 6.7 million goat skins and 13.2 million sheep skins (ELIA, 2013). The sheep skins are well known for their quality. The goat skins in particular are known for their quality and international acceptance. Both goat and sheep skins are preferred for leather garments and gloves manufacturing in addition to being used for shoe upper. The resource endowment of the country illustrates considerable potential of the country in the leather industry (CSA, 2012; ELIA, 2013).

The Ethiopian Leather and Leather Products Industry comprises three major industrial sub-sectors or components: the tanneries processing and producing the leather, the footwear manufacturers (shoe producers), and the leather goods and garments manufacturers. They are medium and large enterprises operating in the formal sector, whereas the micro enterprises particularly in footwear manufacturing area operate in the informal sector (ELIA, 2013). The Ethiopian leather and leather products industry occupies a unique place in the Ethiopian economy due to its strong linkage with the national resource base, namely hides and skins. Considering the export activities of the country, the industry is the fifth largest foreign exchange earner in Ethiopia, earning about 8% of foreign exchange in the year 2006-2007. More importantly, the leather industry comes as the leading exporter, within the manufacturing sector, accounting for, on average, up to 67% of the total manufacturing export. Ethiopia's share in the global leather and leather products market is lower than its position in leather trade. The contributions of SMEs in Ethiopia's international trade is very low which needs critical intervention compared to the involvement of other countries SMEs in global trade activities. To this end the current study can create awareness about the status of SMEs in the share of country's export market by investigating export barriers constraining internationalisation of Ethiopian manufacturing firms.

A study conducted under the Engineering Capacity Building Project (ECBP) has scrutinised the constraints of the LLPI along the value chain from animal husbandry to slaughtering, tanning, manufacturing, sourcing of inputs and marketing issues such as poor delivery time, poor customer communication, poor sample development etc. In addition firms in the industry faced difficulties in getting access to export markets and low profit margin. Especially shoe manufacturers find it difficult to access export markets directly. They often depend on brokers who provide linkages to buyers but keep the lion share of benefits from such arrangements. As a result, export profit margins tend to be low, often extremely low or even inexistent. The Ethiopian leather goods market, such as shoe market, is of considerable and increasing size but the Ethiopian shoe industry seems to be unable to make full use this opportunity. Low cost shoe imports in particular from China have been an issue. The survey conducted by the Ethiopian Economic Association identified that finance, physical infrastructure and institutions constrain the sector (EEA, 2011).

In terms of finance, the main problem is lack of access to finance due to collateral requirement, high transaction cost, high interest rate and low credit ceilings. As a result

Ethiopian SMEs operating in Leather and Leather Products Industry encounters constraints to penetrate international market. Poor trade logistics also impose additional costs on the competitiveness of the leather industry in Ethiopia (Dinh et al., 2012). In this regard, the biggest challenge is the long lead time in imports. Timely imports of chemicals and other inputs are vital to the smooth running of the production process. In general, Ethiopia has many problems which hurt its export expansion. The most important problems are: Low levels of productivity and living which resulted in low income lead to low investment in education and health as well as plant and equipment manufacture and in overall infrastructure development. This in turn led to low productivity and economic stagnation. Problems intertwined one with another could be listed as follows. These include dependence of export on primary and traditional sector products and their low volume of supply, land lockedness of the country; under developed financial and other markets, low levels of private sector's role in sectors with exportable and value added products in the economy, low saving or capital formation share of GDP, low level of financial service facility for the private sector, low administrative and financial support, low inflow of FDI in the country and a few engaged in service and non-exportable industry (Ciuriak, 2010; Azmera, 2013).

3. Research design and methodology

An explanatory mixed methods approach was adopted for data collection which includes a survey, semi-structured interviews and a review of theoretical and empirical literature. Mixed method approach was used and considered helpful in eliciting information from the respondents from different business experiences. The research participants in this study fall within the categories of: SMEs owners, general managers and marketing managers. The researchers' idea to use key informant approach is that these managers are mostly involved in the internationalisation and export planning and executing process and are familiar with the export management environment within the context of leather and leather products industry in Ethiopia.

The target population for the study was all SMEs manufacturing firms engaged in leather and leather products industry in Addis Ababa. A questionnaire was administered to 90 managers/owners of (36 exporting and 54 non-exporting) SMEs. Through disproportionate stratified random sampling method 40 % exporting and 60 % non-exporting firms were included in the survey. This was justified due to the fact that the variability within the group is minimum compared to variability for the population as a whole. Similarly, a total number of 9 SMEs managers were identified for interview and all participated in the interview.

The measuring instruments used for this study were questionnaires and in-depth interviews. Respondents were required to complete the questionnaires and return them to the survey administrator. Using SPSS for Windows version 20, reliability statistics were conducted for Cronbach's Alpha value. Past researchers, like Okpara, J.O. (2010); Ojala, A. (2009); Leonidou, L.C. (2007) used Alpha value of $>.75$ in the study of firm internationalisation. This was used as a bench mark in determining item reliability in the current study. Accordingly internal consistency for the current study was >80 on average.

3.1 Empirical analysis and hypotheses testing

The respondents were selected through stratified random sampling from Manufacturing SMEs operating in Leather and Leather Products Industry in Addis Ababa. The total questionnaires distributed were 125, and out of the distributed 105 questionnaires were returned. Out of these returned questionnaires 90(85%) were appropriately filled in and returned while 15 (14%) questionnaires were incorrectly completed and not used in the analyses.

The response rate for the study is 85% which is considered adequate and representative of the population under study. Table 1 shows summary of response rate for this study.

Sample	125
Total Responses	105
Total Response Rate	96%
Unusable Responses	15
Unusable Response Rate	14%
Usable Responses	90
Usable Response Rate	85%

Table 1: Survey Response Rate

Source: Field survey (2015)

After the data were coded, examined and cleaned, the following data analysis techniques were employed in this order: reliability test of scales with Cronbach's alpha indicator, exploratory factor analysis (EFA) with Varimax rotation with testing for validity and reliability of the model, binary logistic analysis. The statistical parameters of each step were compared with the criteria applied in the analysis of multivariate data (Hair, et al., 2010). Accordingly, factor analysis criteria were set for this study as follows:

Kaiser-Meyer-Olkin (KMO): from 0.50 to 1.00;

Number of factors to retain was decided according to the result of PA;

Significant level: less than 0.01;

The cumulative percentage of variance: 60.0 % or higher

The results from Exploratory Factor Analysis were then used in binary logistic regression to examine the most significant barrier factors.

The logit model was formed as follows:

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

ρ_i = the probability of an SMEs is being an exporter;

β_0 = log odds of firms which is considered as non-exporter (when all $F_i = 0$)

β_i = log odds of firms which is considered as exporter (when $F_i = 1$)

The 31 items measuring internal export barrier factors were subjected to principal components analysis (PCA) using SPSS for Windows Version 20. Table 2 shows the result of factor analysis.

Internal barriers	Dimension			
	1	2	3	4
Insufficient information about overseas market	.951			
Lack of knowledge on export assistance	.928			
Difficulties in gaining access to some data sources	.913			
Difficulty in making customer contacts	.859			
Inaccessible Market Information	.825			
Lack of knowledge about export markets	.811			
Lack of competitive price to customers in foreign markets		.811		
Accessing export distribution/advertising channels		.806		
Difficulty in matching competitors' prices		.801		
Difficulty in supplying inventory abroad		.767		
Complexity of foreign distribution/advertising channels		.758		
Need to adapt promotion to the foreign market		.744		
Difficulties in offering technical/after sales service		.811		
Lack of Managerial Capacity			.811	
Lack of export skills			.871	
Shortage of working capital to finance exports			.853	
Lack of personnel trained to handle export operation			.833	
Lack of excess production capacity for exports			.806	
Lack of managerial time to deal with exports			.742	
Lack of financial resources to finance exports			.734	
Lack of own internationally recognized brand				.733
Narrow product lines/absence of diversification				.822
Poor product quality				.718
Actual product unsuitable for overseas markets				.621
Challenges in meeting export packing/labeling requirements				.600
Difficulties in developing new products for foreign markets				.879
Difficulties in adapting export product design				.681
Eigen Value	10.49	6.62	3.90	2.263
Percentage of Variance explained	33.85	21.36	12.60	7.299
Cumulative Percentage	33.853	55.218	67.819	75.118
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.			.912	
Bartlett's Test of Sphericity		Approx. Chi-Square		2305.431
		df		161
		Sig.		.000
Extraction Method: Principal Component Analysis.				
Rotation Method: Varimax with Kaiser Normalization.				
a. Rotation converged in 8 iterations.				

Table 2: Rotated Component Matrix for Perceived Internal Internationalisation Barriers

Source: Analysis of survey Data (SPSS 20, Factor Analysis output, 2015)

External Barriers	Component				
	1	2	3	4	5
Lack of Ethiopian governmental incentives	.914				
Inadequate government support schemes	.899				
Complex government bureaucracy	.807				
Foreign government restriction	.760				
Lack of financial assistance	.713				
High Tariffs and non-tariffs barriers	.620				
Unfamiliar exporting procedures/paperwork		.811			
Slow collections of payments from abroad		.695			
Difficulty in choosing a local representative		.690			
Difficulty in accessing distributors in foreign markets		.688			
Inadequate communications with overseas customers		.679			
Complexity of export documentations		.711			
High cost of establishing an office overseas		.691			
Strict foreign rules and regulations		.840			
Language differences overseas			.895		
Different socio-cultural traits			.775		
Special customer requirements			.738		
Different foreign customer attitudes			.721		
Cultural differences overseas			.574		
Unfamiliar foreign business practices			.546		
Lack of acceptance of Ethiopian products			.806		
High insurance costs				.864	
High transportation costs				.817	
Poor infrastructure				.709	
Unavailability of warehousing facilities abroad				.599	
Political instability in foreign markets					.776
Currency fluctuations					.750
Intense competition in foreign markets					.652
Poor/deteriorating economic conditions abroad					.612
Eigen Value	13.35	5.59	3.62	2.74	2.18
Percentage of Variance explained	40.45	16.954	10.98	8.308	6.603
Cumulative Percentage	40.45	57.41	68.38	76.69	83.29
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.			.842		
Bartlett's Test of Sphericity			Approx. Chi-Square		
			3105.431		
			df		
			561		
			Sig.		
			.000		
Extraction Method: Principal Component Analysis.					
Rotation Method: Varimax with Kaiser Normalization.					
a. Rotation converged in 23 iterations.					

Table 3: Rotated Component Matrix for Perceived External Internationalisation Barriers
Source: Analysis of Survey Data (SPSS 20 output 2015)

The results of the Varimax rotation PCA revealed that, internal exporting barriers are grouped under four factors: informational barrier factor, marketing barriers, functional barriers and product related barriers. The four barrier factors explained about 75.12 percent of the total variance and used as input in further binary logistic regression analysis. According to factor analysis results, as seen in Table 3, the 33 external exporting barriers are grouped under five dimensions: governmental barriers, procedural barriers, socio-cultural barriers, logistics related barriers and environmental barriers.

Further analysis was conducted using binary logistic regression analysis to determine the most significant barrier factors and the result is shown in Table 4.

Explanatory Variables	β	S.E. β	Wald's $\chi^2(df=1)$	Sig.	Exp(β)	95% C.I.for EXP(β)		
						Lower	Upper	
Step 1 ^a	Inforbarr	-5.725	106.90	19.066	0.03	16.3	9.93	42.1
	Markt barr	-34.07	52.63	4.605	.004	.000	.114	.895
	Functnbarr	-27.8	78.28	15.945	.023	.000	3.73	29.44
	Productbarr	-11.7	44.03	3.081	.002	130.7	.008	.726
	Govebarr	-.246	39.14	.415	.035	1.29	.453	3.77
	Procedbarr	-3.53	176.90	13.167	.042	34.13	.395	43.5
	Scoculbarr	-19.3	52.663	6.324	0.03	262.7	2.34	80.32
	Logstbarr	-5.725	78.278	17.066	.004	36.3	9.93	22.1
	Envirn barr	-34.07	46.34	4.322	.023	76.3	6.33	52.1
	Constant	-38.76	126.6	.000	.997	.000		

Table 4: SMEs Export Barriers Results of Logistic Regression Analysis
Source: Analysis of Survey Data (Logistic Regression SPSS 20 output, 2015)

The Wald statistic in table 4 indicated that all variables significantly and negatively influence export involvement of SMEs in Ethiopia. However, odds ratios for these variables indicate little change in the likelihood of export involvement. It can further be observed that informational barriers is having the highest predictive power as the Wald's statistic is the highest in this case (19.066), followed by logistics related barriers (17.066), functional barriers (15.945) and procedural barriers (13.167). From the result of logistic regression analysis, Wald statistic indicated that, the following factors are significant: informational barriers (Wald=19.066), logistics related barriers (Wald=17.066), functional barriers (Wald=15.945), procedural barriers (Wald=13.167), government related barriers (Wald=0.415), product related barriers (Wald=3.081) and environmental barriers (Wald=4.322). Consequently the following hypotheses 1 and 2 are partially supported.

Ho₁: Internal export barriers as measured by informational, functional and marketing related factors do not negatively associate with the likelihood of SMEs internationalisation in Ethiopia.

Ho₂: External export barriers as measured by procedural, task, governmental and environmental related factors do not negatively associate with the likelihood of SMEs internationalisation in Ethiopia.

4. Discussions and conclusions

As stated in reviewed extant literatures, there are many potential barriers that can impede internationalisation in developing countries like Ethiopia (ranging from high cost of transportation, inadequate infrastructure, bureaucratic red tape, poor product quality for international market, and so on) but a main barrier identified in the literature was shortage of working capital, managerial capacity problem, and lack of export related information. In this current study it was found out that informational barrier (Wald19.066), logistics related barriers (Wald 17.066), functional barriers (15.945) and procedural barriers (Wald 13.167), government related barriers (Wald=0.415), product related barriers (Wald=3.081) and environmental barriers (Wald=4.322). The empirical findings show that internationalisation barriers identified in the literature related to export barriers of developing countries can also be barriers encountered by Ethiopian firms; however, there was perceptual difference between exporting and non-exporting SMEs regarding different barriers. The conclusion that can be drawn from this current study on barriers to SMEs export involvement is that three main barriers hindering internationalisation of Ethiopian manufacturing firms in the leather industry are informational barriers, logistics related barriers and functional barriers (Lack of Managerial Capacity, Lack of financial resources to finance exports, Shortage of working capital to finance exports and Lack of managerial time to deal with exports). Thus, it can be concluded that, SMEs not only have more difficulties in

financing their international activities, they often have limited international experience in their management team. Therefore, managerial skill training and experience sharing must be considered. There should be a sound collaboration between governments, international agencies and the private sector to address these issues with the view to reaping the significant potential benefits that should accrue from the creation of a simpler, more business friendly, and more integrated Ethiopian economy at international levels.

5. Limitations of research and the new direction for further research

The first limitation of this study is that, since the study was carried out on SMEs operating in one country, Ethiopia. Hence, caution should be taken when generalisation across cultures is considered and the findings cannot be generalised to fit all developing countries. Moreover, within Ethiopia this study only focused on SMEs from one geographical area, the capital city Addis Ababa and surrounding industrial zones, therefore the research results may not be generalisable to other areas. This current study was based on data from one country setting thus, the findings cannot be generalised to fit all developing countries. Therefore, comparative future studies could benefit from cross-country comparisons in this respect and worth investigating to explore patterns of similarity and differences between the internationalisation process of Ethiopia SMEs and that of SMEs from other developing economies. Furthermore, another interesting research direction is to extend these research findings to study internationalisation development for other organisational processes in Ethiopian SMEs. The sample for this current study was made up of respondents residing in Addis Ababa and nearby industrial areas, since these were the areas where the most manufacturing industries in the Leather sector is said to be found. However, in order to get an overall Ethiopian perspective, future researchers might wish to consider broadening the sample frame to include all industrial regions within Ethiopia.

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