THE DYNAMICS OF INTERNATIONALIZATION OF ETHIOPIAN LEATHER INDUSTRY DEVOLPMENT INSTITUTE (ELIDI)

With Special Reference to leather industry development institute

By

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List of Abbreviations and Acronyms

AALF	All Africa Leather Fair
AGOA	African Growth Opportunity Act
ASSC	Anbessa Shoe Share Company
BSC	Balanced Score Card
COMESA	Common Market for Eastern and Southern Africa
CSA	Central Statistical Agency
ECBP	Engineering Capacity Building program
ELFF	Ethiopian Leather Footwear Factories
ELIA	Ethiopian Leather Industry Association
ERP	Enterprise Resource Planning
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan
HRD	Human Resource Development
KPI	Key Performance Indicator
LIDI	Leather Industries Development Institute
LLPI	Leather and Leather Products Industries
MoI	Ministry of Industry
MoT	Ministry of Trade
MoTI	Ministry of Trade and Industry
OBSC	Organizational Balanced Scorecard
PBSC	Personal Balanced Scorecard
PPP	Performance, Productivity and Profitability
SCOR	Supply Chain Operation Reference

SME	Small and Medium Enterprises
TPS	Total Performance Scorecard
UNIDO	United Nations Industrial Development Organization

Abstract

Nowadays there is a need for business enterprises to measure, analyze and improve performance as they encounter increasing competition from an ever-changing business environment. Performance is the valued productive output of a system in the form of goods and services and performance measures are the lifeblood of organizations, since without them no decision can be made, as it is the first step to control and improvement. Though the Government of Ethiopia is promoting the leather footwear industry as a priority area and the sector has a huge potential for developing an economy, its performance is unsatisfactory due to external and internal problems that hinder its competitiveness. Thus, the aim of this study is to assess and evaluate performance management practice of Ethiopian Leather Footwear Factories, identify critical problems and propose a firm level total performance improvement method and suggest roles of stakeholders or improvement directions towards the external problems. To undertake this research, primary and secondary data are collected through a survey questionnaire, interviews (in the form of discussion) and physical observation in the case factory, as well as referring previous research works and case company records. To analyze and present the data, pie charts, bar graphs, and diagrams are used. In addition, to see the performance gap of the case factory, benchmarking is done. From the research, it is concluded that the leather shoe factories have both internal and external problems resulting in low performance and competitiveness. To alleviate the internal or firm level problems, a total performance improvement method called Total Performance Scorecard (TPS) is proposed. In addition improvement directions are forwarded towards the external or sector level problems. Regarding the proposed method, a performance measurement framework/scorecards and its implementation guideline is developed for Anbessa S.C. TPS is a combination and also an extension of the concepts BSC, TQM and Competence Management which is being defined as a systematic process of continuous, gradual and routine improvement, development and learning. The process focused on the solid increase of both the personal and organizational performances. This method has an important aspect in maximizing the involvement and loyalty of all involved persons, as well as encouraging individual and team learning and creativity via its Personal Balanced Scorecard (PBSC).

CHAPTER ONE

INTRODUCTION

1.1 Background

As the world is becoming one through the apparent rapid globalization process, local firms have to transform themselves into international firms. In this process, the national firms are needed to integrate into the multifaceted international market. The dominant way of integrating local firms into the international market is through exporting products and services. At the same time, firms' international operations require huge resources, utilization of capabilities as well as competitiveness unlike operations limited to the domestic market. Conversely, the international movement of firms may be triggered by proactive motives (such as profit advantage, unique products, technological advantage, exclusive information, managerial urge, tax benefit, decline in government imposed barriers and economic of scale) and/or reactive motives (such as competitive pressures, overproduction, declining domestic sales, excess capacity, saturated domestic markets, and proximity to customers and ports) (Czinkota, 2004).

The internationalization process of firms has been studied in two different streams of researches. The first stream of research puts emphasis on the process of firms' initial entry into foreign markets as well as on why and how firms step into international markets. The stage theories of process internationalization belong to this stream. The other stream of research focuses on the later stage of the firms' internationalization process. The product life cycle theory of internationalization process and eclectic paradigm (Dunning, 1988) explains that firms start to internationalize later on by locating part of their production facilities abroad in low-cost production countries. The basic assumption behind the above two streams of researches is that firms first operate in the local market and then initiate their international operations. Apart from the process theory of internationalization through an early or a later stage entry into foreign markets, firms can also be involved in the international market (as born globals) early, sometimes even from the time of their inception.

1.2 Research Objectives

Underlying the above points is the assumption that local firms may gradually and successfully internationalize their operations in a global environment that is complex, dynamic and competitive provided that they replicate their competencies and capabilities developed in local markets. In view of that, the main objective of this research is, therefore, to understand the dynamics of internationalization of firms especially in a stagnant industry and involving in an international environment, which is complex for firms in developing countries. The incremental internationalization process of Ethiopian leather and leather products processing and producing firms, which are currently involved in international operations, is assessed by identifying those competencies and capabilities leading them to enter into and expand their operations in the international leather markets.

The specific objectives of the study are to:

1. Identify the development stage/s of Ethiopian leather and leather products exporting firms in their internationalization process.

2. Find out important firm-specific capabilities that empower Ethiopian leather and leather products exporting firms to move from one stage to another and enter into international leather market.

3. Identify higher-order intangible capabilities that help Ethiopian leather and leather products exporting firms to expand into multi-market international operations.

4. Examine the contribution of country-specific capabilities and position of industry driver as moderating factors that dictate the Ethiopian leather and leather products exporting companies' operational extension beyond the national boundary.

1.3 Country Overview (Ethiopia)

Ethiopia is considered as the only independent country in Africa and also as one of the oldest nations in the world. Nonetheless, the country is viewed as poor country and is also well known due to war, drought and hunger. In the previous century (20th century), the country experienced three different government political systems: Feudal system (1928–September 1974), socialist system (1974–1991) and free market economy system (May 1991 to date). Consequently, the economic policy followed by the three regimes influenced differently the country's export activity and internationalization process of local firms in different aspects. Furthermore, as many underdeveloped countries, the country's economy largely depends on primary sector economic activities, such as on agriculture, agribusiness, fishing and mining. One of the sub-sectors that Ethiopia has a comparative advantage in the manufacturing industry sub-sector is the leather industry. The nation's large resource base for the raw material needs of the industry, the labor intensive nature of the industry in line with its need of less complicated machinery and technological requirements make the leather sector a good candidate to be considered as a priority sector deserving special support to foster its growth and achieve competitiveness at the international level. Based on these facts, the Government of Ethiopia has given top priority for the development of the leather and leather products industry in its export oriented and agricultural led industry development strategy adopted a decade before. The leather industry in Ethiopia mainly encompasses the tanning industry which produces hides and skins in different types of products ranging from pickle to finished leather, the footwear industry which also produces different ranges of shoe types including shoe upper, complete shoes for men, ladies and kids, and the leather garments and goods industry which produces leather garments, bags and different kinds of leather articles. For different reasons the tanning industry, the footwear industry and the leather goods and garments industry are found to be in different stages of development. Indeed the tanning industry is at a better position because of its early existence and because more investments were made in this field. The footwear industry comes to the second position but the industry seems to be a more promising field though it is on infant stage of growth in the country. It is important to explain the progress of development of each specific field in the industry to have a clear view of improvements brought about by the conducive investment environment of the country to the leather sector.

1.4 The Ethiopian Leather and Leather Products Industry

The Ethiopian leather and leather products industry is relatively an older industry with more than 80 years of involvement in processing leather and producing leather products. The industry bases itself on the country's livestock resources. Ethiopia possesses one of the world's largest livestock populations. Ethiopia is eighth for cattle, twelfth for sheep and lambs, and eight for goats (FAO, 2001). This enormous population of livestock provides ample opportunity for the development of the leather industry in the country. In addition to possessing large livestock population, Ethiopian cattle hides are well known for their fine grain pattern and good fibre structure and are ideal internationally for making shoe upper. Correspondingly, the Ethiopian highland sheepskins have got worldwide reputation in terms of quality, thickness, flexibility, strength, compact structure and clean inner surface. It is also estimated that about 70% of the national sheepskin production is very suitable for the production of high quality leather garments, sport gloves and has great demand on the international leather market (UNIDO and MoTI, 2004a).

1.5 Components of ELLPI

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 producing), 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.

1.5.1 The Tanning industry

The tanning industry has long aged traditional background in Ethiopia, and the modern tanning industry begins after the first tannery was established in 1925 G.C. around Addis Ababa which is still known by the name Addis Ababa tannery. At that early stage the Foreigners living in the country had started the business to supply leather required to make different articles made from leather. Raw hides and skins were the major export commodities by which the country used to earn significant amount of foreign currency next to agricultural products like coffee and oilseeds. This has continued until the time the military government had banned the export of raw materials aiming at the expansion of the tanning industry to produce and export semi-processed leather at pickle and wet blue stage. After the end of the military regime and

following the declaration of the free market economy in Ethiopia, the tanning industry began to grow rapidly. Before 1991 the number of tanneries in the country was only seven and after 1991 nineteen new tanneries were established by the private investors and the number of tanneries has now increased to 25. Following the adoption of the industrial development strategy, which is export oriented and agricultural led the Government of Ethiopia has focused on promoting value addition and encouraging the tanning industry to move towards producing semi-finished and finished leather. Besides encouraging the private investors to invest on machineries and manpower which could enable them to produce value added leather, the government has taken policy measures which have forced the investors to go for production of crust and finished leather. After January 2009 the Government had levied a tax of 150 percent on export of pickle and wet blue leather and this measure had brought significant and basic structural shift in the leather industry.

Currently, there are 22 tanneries operating in Ethiopia with installed daily capacity of producing 6,393 square feet of hides and 133,450 square feet of skins. The actual daily capacity utilizations, however, are 81% and 44.97% for hides and skins, respectively. Taken as a whole, these tanneries have created direct job opportunities for more than 4,000 people. Out of 22 tanneries, 9 are 100% export oriented in semi-processed skins mainly pickle and wet blue. The other tanneries managed to produce finished leather products by introducing new technologies and thus, are selling almost 20% of their products in the local market (2011; and MoI,)

1.5.2 The shoe Manufacturers

The shoe manufacturers and leather goods and garments producers recline under the canopy of 'The Leather Products Industry' within the leather and leather products industry. These are manufacturers of leather shoe, shoe uppers, leather garments, bags, and stitched upholstery and belong both to the formal as well as the informal sector of the economy. The footwear (shoe) industry is, in turn, composed of two sub-sectors: the larger mechanized shoe industries sub-sector and the smaller production units – micro, small and medium enterprises including the informal ones, with fluctuating employment levels, unhealthy work infrastructures and seasonal production schemes. Currently, there are 13 medium and large mechanized footwear factories in the formal sector, the first shoe factory being established in 1938, with installed daily capacity of 13,650 pairs of shoes. Nevertheless, the actual current capacity utilization of these firms is 47.6%. They primarily produce and export men's and children's shoes. Although there are shoe factories producing ladies shoe for the local market, they were not able to export for they lack the necessary technology and trained manpower. Out of 13 shoe factories, almost

half of them are currently under expansion, mainly by sub-contracting work for foreign companies, and investment (UNIDO and MoTI, 2004).

1.5.3 Leather goods and garments sub-sector

There are 16 enterprises operating in the leather goods and garments sub-sector. Taking into account only major leather goods and garment producers (14 in number), the overall installed capacity and actual outputs per day were 700 pieces and 309 pieces, respectively. More specifically, they have a daily installed capacities ranging between 20–150 pieces, however the actual factory outputs ranges from 10–60 pieces of garments per day. The reasons behind this low capacity utilization are the size and static state of the domestic market, lack of competitiveness and negligible penetration of the export market (UNIDO and MoTI, 2004a).

Because of the promising growth of investment in leather products industry especially footwear and glove, the demand of leather products industry in the country for finished leather is increasing rapidly from time to time. In addition to this Ethiopian highland sheep skins and Ethiopian Bati genuine goat skins have great demand on the world market for manufacturing of top brand glove and footwear. Due to this reasons the government of Ethiopia is on a position to make policy change on export of semi-finished (crust) leather and that is expected to be in effect in the country.

The growth and Transformation plan;

The government has also given due attention for the growth of the tanning industry in view of higher value addition in the GTP. From the leather industry in total the GTP has placed a target to earn 500 million USD per year and 136.65 million USD per year from finished leather export. The export performance of the tanning sector during the last five years shows that it will not be difficult to realize the target set by the GTP. The following table shows the export performance of the leather sector.

Table 1.1: Leather sub-sector export from 2006/07 to 2010/11

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

Source: Own Survey (2010/11)

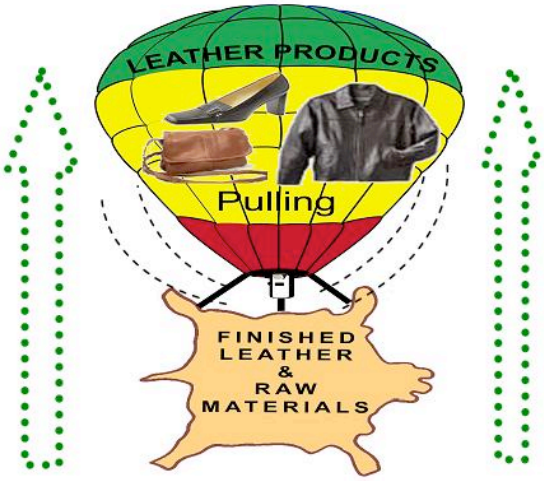
1.6 Strategy of ELLPI

Considering the already developed capital, the national resource base mainly in raw material (hides and skins) supply, the availability of low-wage and easily trainable labor force, domestic market size and opportunities for export, and the strong backward and forward linkage within the industry, the government of Ethiopia has put the sector at the forefront of the country's development endeavors (Ernst & Young, 2005). Under the Ethiopian Industrial Development Strategy (EIDS), which is focused on the creation of an enabling environment for the private sector as the driving force for economic?

Development of the leather and leather products industry is one which got the top priority. The approach adopted for the development of LLPI essentially facilitates the industry to generate more foreign-exchange and promote a rapid and sustainable growth. In 2004 the Ministry of Trade and Industry in close cooperation with UNIDO identified the ''Top-Down (pull)'' Approach (TDA) as a strategy and intervention mechanism for the development of the LLPI. The assumption behind this approach is that the development of footwear, leather goods and leather garments should ''pull'' the tanning sub-sector to produce better quality and increased quantity of finished leather. Subsequently, this will result in an increase in the tanners demand for more and better quality hides and skins (Diagram 1.1).

DIAGRAM 1.1

"TOP DOWN (PULL) APPROACH"



Source: UNIDO and MoTI (2004)

The TDA basically puts much emphasis and promote the development of the footwear industry as a priority sub-sector, whilst the development of leather goods and garments will be facilitated to the highest segments of foreign markets through a ''Made in Ethiopia''1 program. To integrate the Ethiopian leather and leather industry into the global leather value chain a ''stretch strategy'' was also introduced. This strategy was developed mainly to improve the competitiveness of selected shoe producing factories in Ethiopia and enable them to enter the global value chain by introducing and improving technical and managerial skills with very low levels of investment (UNIDO & MoI, 2004a).

In general, the TDA is based on the following two main conceptual drivers: (1) The ELLPTI as driving engine for the creation and transfer of the necessary technical and HR capabilities and (2) Sub-contracting as mechanism for the acquisition of foreign technology and related training, development of local and international networking and linkages, and increase the production capacity of finished leather (UNIDO and MoTI, 2004).

1.7 Contribution of ELLPI to the Ethiopian Economy

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, 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.

Contribution of ELLPI to Export

Table1.2: Leather industry export performance in thousands USD (2006 – 2011)

S. N.	Product Category	1997	1998	1999	2000	2001	2002	2003	2004(7 months)
1	pickle	28,202	28,478	30,470	32,088	19,131	-	-	
2	wet blue	21,93	28,718	27,073	29,288	14,867	-	-	
3	crust	9,401	10,490	19,508	17,719	23,128	37,755	70,140	47,603
4	finished	3,134	5,740	6,951	12,259	11,152	12,878	25,335	17,973
5	shoe	3,446	1,600	5,541	9,872	7,195	5,737	8,642	4,783
6	glove	-	-	-	-	-	-	-	639
6	Leather garments and	34	302	-	29	146	138	213	92
	Total	66,150	75,328	89,543	101,255	75,618	56,507	101.34	71,093

Source: Own Survey (2010/11)

1.8 Problems of ELLPI

Since the ELLPI is a stagnant and non-competitive industry having erratic export growth performance on the global leather market, it is absolutely crucial to identify the main constraints causing low competitiveness in the internal operations of the ELLPI value chain.

Indeed, the Ethiopian leather industry comes at the forefront of the leather sector development in Eastern and Southern African region and has got a good reputation for excellence in the international leather market. Ethiopian animal skins and hides fineness of the grain and fibre structure had the ability to produce premium glove and garment grain leather and good quality suede. And yet the industry operates at less than 50% of its full potential, except for hide's production (i.e. 81% of utilization), not competitive, stagnant and facing multifaceted problems and constraints starting from the very beginning of the value chain (i.e. animal up keeping and husbandry at the house level) all the way (i.e. processing and production) to marketing of leather and leather products both on the national and global leather markets. In general, the main reasons causing low competitiveness and hindering the ELLPI to enter and expand in the global leather value chain are: lack of sufficient volume of raw material (hides and skins due to

epidemic disease such as ‘’ekek’’), low quality and insufficient volume of finished leather required by the leather goods and garments manufacturers, low processing skills (human resource capability), limited technological capabilities and lack of modern processing equipment for leather products (tanneries), malfunctioning market system and structural problems.

1.9 Problem Statement

International involvement of local firms is a major source of revenue for any nation and represents a significant share of GDP. Particularly firms in developing countries exchange goods in the international market with low income elasticity of demand for most of the exported goods are primary and semi-processed products. Consequently, the foreign earning generated from export is very low. Leather and leather producing firms in Ethiopia have been involving in the international leather markets for more than 68 years. Till 2010 majority of their exports are semi-processed leather products such as pickled and wet blue hides and skins. Only few firms are able to reach the highest stage of the value chain, produce and export finished leather products. On the other hand, in spite of the fact that the Ethiopian leather industry seems to try to produce and export leather and leather products, the industry lacks competitiveness both in the domestic and international markets, makes it a sluggish and non- innovative industry. Furthermore, although the industry has a comparative advantage of producing leather and leather products at relatively lower cost, local firms were not able to make use of it due to the reasons mentioned in the previous section. At the same time, the industry has witnessed erratic export growth over the past 10 years. This may be attributed mainly to shoe manufacturers and leather goods and garments producers exporting their products with intermittent variation and lack of sufficient market information and competitive capacity.

In lights of the above facts, the following four major questions were posed and addressed in this research:

1. At what developmental stage of the internationalization process are Ethiopian leather & leather products exporting firms currently operating?
2. Which firm-specific capabilities enable Ethiopian leather & leather products exporting firms to enter into the international leather markets?
3. Which higher-order intangible capabilities enable Ethiopian leather & leather products exporting firms to expand in the international leather markets?
4. How can country-specific capabilities and position of industry drivers translate firm-specific

capabilities into firm's export success?

1.10 Scope and Expected Contributions

In this research, only medium and large leather and leather products manufacturing enterprises were taken as subjects of the study. Even though there are many small enterprises producing leather and leather products in Ethiopia, majority of them are operating in the informal sector, not using power-driven machines and not involving in export activities. Hence, they are not considered in this study since the main focus of the paper is the internationalization process.

In the first phase of the research, quantitative phase, medium and large enterprises in the Ethiopian leather industry operating in the formal sector and using power-driven machines regardless of their location were taken it to account. In the second phase (case study), however, only three enterprises were selected from each sub-sector. Furthermore, unlike other international activities (i.e. direct investments, concession of license or franchising services, joint ventures, establishing foreign subsidiaries and licensing), this study is focused only on the internationalization process through exporting leather and leather products to foreign markets. Finally, since this study is context specific (i.e. country and sector), caution is required in interpreting and translating the results to other sectors.

The study attempts to bridge the gap in the literature by studying the internationalization process of the Ethiopian leather and leather products sector and testing a new comprehensive internationalization model to enhance the understanding of the internationalization processes of firms in developing countries, which is currently missing in most literatures.

It may help non-exporting firms to adapt and follow the paths of those firms already involved in international operations and doing well (i.e. a multiplier effect).

It may also help existing exporters to formulate strategies in order to develop and utilize only important firm-specific capabilities as well as exploit resources of the country.

The study will contribute towards the goal set by the government to improve the competitiveness and export performance of the sector.

The study can also provide valuable inputs to investors who are sceptical about the prospects of the Ethiopian leather and leather products sector.

Finally, it can also initiate further studies on the internationalization process of other sectors in Ethiopia.

1.11 The Organization of the Thesis

This thesis contains four chapters and proceeds as follows. First, research background along with the general situation of the Ethiopian leather and leather products industry including its contributions to the overall economy and research problem are presented. In the second chapter, a literature review is carried out, in which different views of internationalization are analyzed. Chapter three presents the research covering the hypothesis, objectives, operational framework and methodology. Finally, in chapter four the conclusions, and policy implications and suggestions for future research are presented.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview of Competitiveness and related issues

The Global Competitiveness Report of the World Economic Forum defines competitiveness as "the set of institutions, policies, and factors that determine the level of productivity of a country." Competitiveness is important for any economy that must rely on international trade to balance import of energy and raw materials. International comparisons of national competitiveness are conducted by the World Economic Forum, in its Global Competitiveness Report, and the Institute for Management Development[8] in its World Competitiveness Yearbook.[9]

Merriam-Webster defines competition in business as "the effort of two or more parties acting independently to secure the business of a third party by offering the most favorable terms".[3] It was described by Adam Smith in The Wealth Nation (1776) and later economists as allocating productive resources to their most highly-valued uses and encouraging efficiency. Later microeconomic theory distinguished between perfect competition and imperfect competition, concluding that no system of resource allocation is more efficient than perfect competition. Competition, according to the theory, causes commercial firms to develop new products, services and technologies, which would give consumers greater selection and better products. The greater selection typically causes lower prices for the products, compared to what the price would be if there was no competition (monopoly) or little competition (oligopoly).

Three levels of economic competition have been classified:

The most narrow form is direct competition (also called category competition or brand competition), where products which perform the same function compete against each other. For example, one brand of pick-up trucks competes with several other brands of pick-up trucks. Sometimes, two companies are rivals and one adds new products to their line, which leads to the other company distributing the same new things, and in this manner they compete.

The next form is substitute or indirect competition, where products which are close substitutes for one another compete. For example, butter competes with margarine, mayonnaise and other various sauces and spreads.

The broadest form of competition is typically called budget competition. Included in this category is anything on which the consumer might want to spend their available money.

Competition between countries is quite subtle to detect, but is quite evident in the world

economy. Countries compete to provide the best possible business environment for multinational corporations. Such competition is evident by the policies undertaken by these countries to educate the future workforce.

2.2 Firm Specific Capabilities (FSCs)

Firm-specific Capabilities (FSC) refer to the dynamic capabilities exploiting existing internal and external firm-specific competences to address changing environment (Teece et al. 1997, p. 510). The value of firm's core competencies should be enhanced in combination with the appropriate resources (assets) so as to become sources of advantage. All resources of firms are not strategically relevant resources and sources of sustainable competitive advantage, rather only those resources having the following four attributes (Barney, 1991, p. 105-106):

i) The resource must be valuable, in the sense that it exploit opportunities and/or neutralizes threats in a firm's environment,

ii) The resource must be rare among a firm's current and potential competition,

iii) The resource must be imperfectly imitable, and

iv) There cannot be strategically equivalent substitutes for this resource that are valuable but neither rare nor imperfectly imitable.

In the resource domain of the firm, Penrose (1959) mentioned firms' resources such as managerial or organizational resources, entrepreneurial resources and technological resources. Considering the dynamic capability view of the firm, slightly different terminologies were used to explain firm's resources possessions. Accordingly, a firm consists of human capital resources, physical capital resources, organizational capital resources, financial resources and its knowledge. Specifically, the resources include management capabilities, and difficult-to-imitate combinations of organizational, functional and technological skills, integrating and drawing upon researches in such areas as the management of R&D, product and process development, technology transfer, intellectual property, manufacturing, human resources, and organizational learning (Teece et al. 1997, p. 510). These resources consist of already existing and routinely exploited and not yet fully developed or exploited dynamic capabilities. Dynamic capabilities can be produced internally within the firm and/or acquired from external sources through the open market or networks (Helfat and Peteraf, 2002, p. 24).

Following the above brief theoretical discussion, four capabilities were identified that encompass the firm-specific capabilities domain of the firm, namely human resource capabilities, technological capabilities, marketing capabilities, and organizational capability and structure. These capabilities were considered as one of the key constructs that constrain or facilitate the internationalization process of firms. Other higher-order intangible capabilities which were implicitly explained earlier will be discussed in the later sections of this paper.

2.2.1 Human Resource Capabilities (HRCs)

Human resources of a firm basically deals with ‘’people’’ (i.e. the human capital pool). Human capital is defined as the knowledge that is embodied in people (Coff, 2002, p. 108). Saint Onge (2000, p. 4) stated human capital in a slightly different way as ‘’the capabilities of individuals in an organization that are required to provide solutions to customers". The human capital pool mainly refers to the stock of employee skills, knowledge, experience and ability that exist within a firm at any given point in time. In addition to basic human skills, a firm’s human capital pool contains the highest level of skills. And the actual stock of human capital changes over time in order to meet the strategic intent of the firm. Correspondingly, the elements of human resource management (i.e. human resource planning, recruitment, selection, development, performance appraisal, compensation, and termination) and human resource activities play significant roles in acquiring human assets and developing stock of talents that cannot be easily imitated. Differently speaking, within the human resource pool of a firm human resource management systems and routines, which are developed over time, are unique to a particular firm and contribute to the creation of specific human capital skills.

To sum up, human capital varies among firms within different industries . However, if firms are homogeneous within the same industry or sub-industry, the industry or sub-industry-level human capital is the same due to commonalities in production functions and resources which exist within an industry or a sub-industry (Coff, 2002).

2.2.2 Technological Capabilities (TCs)

Physical capital resources of a firm include physical technology used in a firm, firm’s plant and equipment, its geographic location and its access to raw materials, in general (Barney, 1991, p. 101). Technology as a component of firm’s physical resources represents one of the most important factors in increasing the national and international competitiveness of firms. In this context, it allows to obtain products, through product innovations, with superior characteristics

as compared to the ones offered by the competitors, on one hand, and to reduce the cost of production and, consequently the prices, through process innovation, on the other hand (Filipescu, 2007, p. 5). Collis (1994, p. 145-146) has labelled technology as 'black box' of firms that transforms the physical inputs into outputs. Existence of better technologies within a firm are regarded as better capabilities that allows firms to more efficiently or effectively choose and implement the activities necessary to produce and deliver a product or service to customers.

Technological resources are the tangible and intangible technical assets of the firm such as technological knowledge, new knowledge, and know-how and physically embodied materials in the form of capital equipment (Penrose, 1959, p. 79, 111). Hence, continuous improvement in manufacturing process capability and the ability to conceive new ways to create value represent technological capability. In a similar fashion, Kim, Lee and Lee (1987, p. 278) defined technological capability as ''the ability to make effective use of technological knowledge in efforts to assimilate, use, adapt, change, or create new technology''. They further decomposed it into three major capabilities: (1) a production capability (the ability to operate and maintain production processes), (2) an investment capability (the ability to design and erect new ventures and expansions), and (3) an innovation capability (the ability to generate new products and processes and to improve existing ones). Due to high predictability of changes in market and technology, firms are forced to upgrade and replace their technologies continuously through technology acquisition and transfer.

Indeed, physical technology is tradable; the tacitness of technology gives rise to users to have technological capability. Since most of the technology used in developing countries are imported technology, building subsequent technological capabilities and exploiting them requires the development of tacit technological knowledge in human resources (Kim et al. 1987)

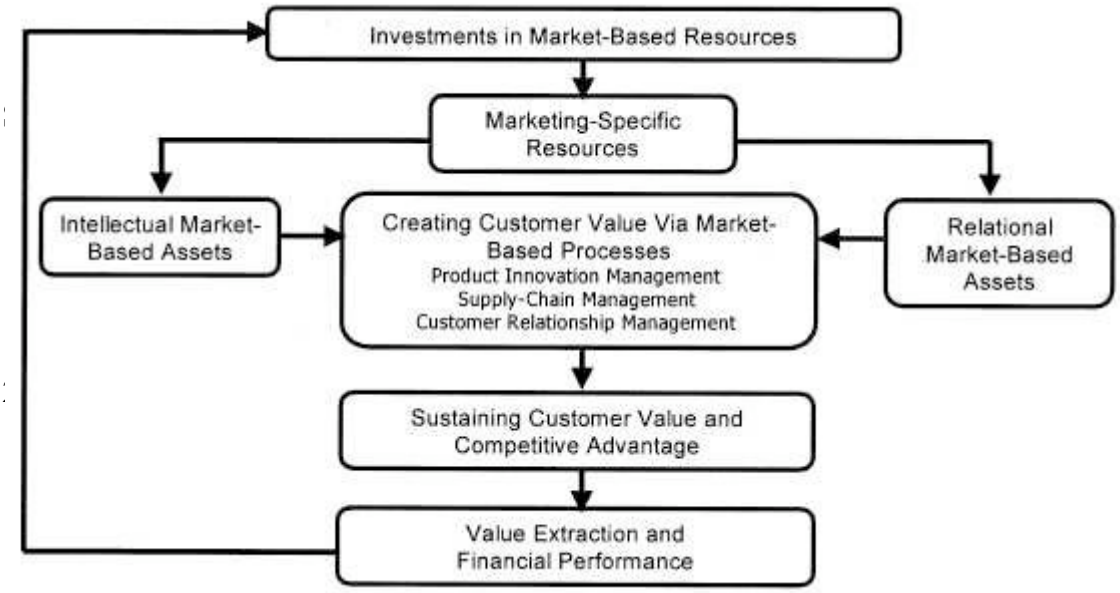
2.2.3 Marketing Capabilities (MCs)

Marketing specific resources such as brands and customer and distribution relationships play significant roles in gaining and sustaining competitive advantage since such resources are generated and leveraged in large part through marketing activities (Srivastava, Fahey and Christensen, 2001, p. 778-779). The authors further distinguished between market-based assets, market-based processes and market-based capabilities. Market-based assets are, in turn, constitute two related types of assets: relational and intellectual. Relational market-based assets are mainly described in terms of relationships in the practice of marketing. They are based on factors such as trust and reputation, the potential of any organization to

develop intimate relations with customers and hence, such assets are relatively rare, difficult to replicate and tend to be intangible. Intellectual market-based assets, however, are types of knowledge a firm possesses about its competitive environment and these assets reside within the firm's boundary (p. 781). Firms face problems and opportunities in the marketplace especially in knowing about customer preferences and the overall trend, and in identifying and selecting market segments. For these reasons, firms should make investments (i.e. money, time and energy) on market-based resources. In the organizational process, physical assets are converted into products or solutions for customers. In the transformation process assets, including marketing assets, are absorbed to generate products and services that customer's desire. The final outcomes of the processes determine the presence and comparative worth of capabilities. Marketing specific capabilities, in turn, reflects a firm's ability to perform each key customers connecting process. Firms possessing market-driven capabilities have superior market sensing, customer linking, and channel bonding capabilities (Day, 1994, p. 41). A firm acquires many capabilities that enable it to carry out the activities necessary to move its products or services throughout the value chain. Creating and enhancing market sensing and customer linking capabilities build a market- driven organization.

DIAGRAM 2

FRAMEWORK FOR ANALYSIS OF MARKET-BASED RESOURCES



Source: Srivastavaetal.(2001,p.782)

In this context, organizational resources refers to an asset or input to production (tangible or intangible) that an organization owns, controls, or has access to on a semi-permanent basis (Helfat and Peteraf, 2002, p. 4). Organizational resources are considered as intangible resources serving as a source of sustainable competitive advantage (Hunt and Morgan, 1996). Barney (1991, p. 102) identified intangible organizational capital resources such as a firm's formal reporting structure, its formal and informal planning, controlling, and coordination systems, as well as informal relations among groups within a firm and between a firm and those in its environment. Organizational capability has been defined by different authors in a slightly different ways (Collis, 1994;
Winter, 2000; Helfat and Peteraf, 2002). However, almost all definitions are focused explicitly and implicitly on the terms organizational routines and tasks. According to Winter (2000, p. 3), an organizational capability is defined as 'a high level routine (or collection of routines) that, together with its implementing input flows, confers upon an organization's management a set of decision options for producing significant outputs of a particular type''. In this definition, there are two important concepts. The first one is the concept of organizational capability as high level routines, which are needed to execute and coordinate the variety of tasks required to perform the activity (Helfat and Peteraf, 2002, p.5). In this regard, organizational capability refers both observable corporate structure and processes, and the corporate culture and network of employees. The second concept is the conversion of physical inputs into outputs (transformation process) inside the 'black box' in the firm. In this case, it functions as the organizational complement to the technological determinants of the efficiency of production (Collis, 1994, p. 145). Since the second important element of the definition is partly covered under the technological capabilities section, organizational capability in this section mainly focuses on the first aspect. The high level organizational routines, which are repetitively performed activities in a certain pattern, among others, include corporate planning and coordination, non-routine decisions, and delegation of autonomy and responsibility.

2.2.4 Country Specific Capabilities (CSCs)

The competitiveness of a country is essential for the welfare of its citizens. In a fast-moving, globalized world, an economy is competitive if it can accumulate and redeploy resources rapidly in pursuit of new opportunities, while at the same time, fully exploiting existing competitive strengths. The redeployment of resources can mitigate the effects of adverse economic conditions in a specific industry or in country at large. Furthermore, industry growth

in a given country is significantly influenced by country, industry and combined industry and country effects.

Country-specific factors such as country specific environments, economic policy and macroeconomic development have a significant impact on industry growth than industry effects (OECD, 2000). Other country-specific factors identified by the Asian Development Bank, ADB (1999) include the role of government, sophistication of public science and technology and R&D systems, availability of skills and human capital, presence of industry clusters facilitating technology transfers and agglomeration and the role of the banking sector. All these factors contribute either positively or negatively to the competitiveness of a country. ADB (1999) defined a country's competitiveness as ''its ability to achieve sustained high growth rate, much of which depends on firms in the country competing successfully in domestic as well as external markets''.

2.2.5 Local Education System

Education and skill trainings are public goods that are publicly provided by the federal, state and regional governments since if education is left to the market, investment on education may be much lower than the optimum because those who pay for it may not be able to recoup their costs (Berkum, 2004, p. 4). According to Steiner (1988, p. 107), teacher, student, content and context are taken as forming a system of education and the system, in turn, affects relations pertain to how these components are connected. Content is that which is to be learned, whereas context refers to the setting in which guidance of learning occurs.

Effective education system contributes positively to human capital development through education, training and development. A well developed and strong human capital endowment (pool), in turn, supplies the requisite labor force for each sector and sub-sector, and considered as a means of upgrading the overall competence of employees in order to stay competitive in the international market place (Chadee and Kumar, 2001, p. 468).

In general, a country's education system constitute higher education that mainly refers to university and non-university higher education institutions which award degree or sub-degree qualifications, diploma (advanced), vocational education and training, senior secondary education and others below secondary school. Secondly, lower professional and professional educations are very important to keep and sustain the development of various sectors in a country.

2.2.6. Wage Rate of Workers

Average wage or salary rate is a rate paid for nominal time of work, comprising basic wages and salaries, cost-of-living allowances and other guaranteed and regularly paid allowances. However, overtime payments, bonuses and gratuities, family allowances, and other social security payments made by the employer directly to employees and ex gratia payments in kind supplementary to normal wage and salary rates are excluded in the above definition (OECD, 2007, p. 846). Individual wage rate is affected by worker quality and person characteristics (effect), on one side and the average predicted wage given worker characteristics is used to measure the observed worker quality, on the other side (Abowd, Kramarz and Moreau, 1996, p. 310). Wage rates are also affected by the supplies of labor of various types, the demands, as well as the technology for human capital accumulation. Individual human capital, which is accumulated by investing – going to school and determined by the social stock of knowledge available, determines the wage rate of an individual when s/he enters the workforce (Stokey, 1991, p. 588).

Firms employ labor of various skill levels to produce goods of various quality levels. Since higher quality goods most of the time requires higher costs of production, firms are required to hire workforce with higher levels of skills at higher wage rates. Furthermore, firms that use a large number of new technologies employ more educated workers, employ relatively more managers,

Existence of Specific Policies

Government of a country formulates national policies and develops strategies with broader developmental perspective of creating wealth and enhancing welfare. The appropriateness of top-level policy and subsequent regional and local policies that the government adopts are, in a practical manner, likely to support viable and innovative domestic firms in addition to tapping the resources of large foreign companies (Kuwayama, 2001, p. 15). Furthermore, strategy and policy perspectives for developing countries can be seen at three different levels (business community, national and international), which the actions at the three levels should be complementary and have to be coordinated (p. 66). There are several policy areas that go beyond private-sector initiatives and correspond directly to the government. These are tariff policy, tax policy, subsidy (including interest rate) policy, business income policy, promotion and support policy, trade and investment support policy, competition policy, fiscal incentive

policy, e-commerce policy, knowledge and technology transfer policy, and access to information about policy changes. The policy measures that are undertaken by the government should go in accordance to the actions taken by individual business so as to create a business and policy environment where local firms can operate and compete openly.

Direct Investment Incentives, Export Incentives and Support Institutions Most governmental and international institutions have chosen to use their scarce resources to promote and support business start-ups, growth and expansion. The more prosperous a country is, the more resources it may use for assisting sectors and individual businesses. To encourage private investments and promote the inflow of foreign capital and technology, federal, regional and local governments have to progressively design and introduce a number of investment incentives. Granting investment incentives may serve either as a supplement to an already attractive environment enabling for investment or as a compensation for proven market imperfections that cannot be otherwise addressed (OECD, 2003). These incentives encompass: investment grant (cash payments), investment allowances (i.e. tax free cash payment), exemption from the payment of import customs duties and other taxes levied on imports of all investment capital goods (customs import duty), exemption from payment of export customs duties, income tax holiday, profit tax holiday, loss carried forward, protection of local industries with import tariff, foreign currency facility for international trade, re-investment allowance (for companies incurring capital expenditure for the purpose of approved expansion), investment tax allowance, labor related incentives (recruitment support, pre- hiring training, wage subsidies and on-the-job training),

Firms' successful entrance and expansion into foreign markets should go along with export promotion programmes offered by public and private institutions and agencies. According to Seringhaus and Rosson (1990, p. 514-515), government export promotion programs are defined from policy perspective as ''public policy measures that actually or potentially enhance exporting activity at the company, industry or national level and are potentially important means of enhancing the competitive advantage of current and potential exporters''.

2.3 Industry Drivers (IDs)

Firms' overall growth performance and internationalization process are influenced by various factors that are internal and external to the firms. These factors are generally termed as drivers, which create the potential for a multinational business to achieve the benefits of global strategy further classified drivers into two types: industry drivers and firm drivers. Industry drivers are

defined as various external forces acting within the context of the firm's environment thereby influencing both positively and negatively firm's strategy and its outcome (p. 203). According to the authors, industry drivers are industry conditions (forces) that are externally determined and have an impact on a firm's international growth. Various authors investigated those elements that play an influential role in stimulating domestic firms' intention to engage in internationalization. Firms intend to engage in exporting activities as long as there are 'positive' industry drivers. These positive industry drivers, among others, include global excess capacity (ADB, 1999) and 'external' export stimuli. Export stimuli are all those factors influencing a firm's decision to initiate, develop or sustain export operations, in general and external export stimuli are external factors stemming from the environment and stimulating firm's export decisions, in particular External export stimuli have been further classified as proactive and reactive. Proactive external export stimuli refers to the firm's aggressive behavior and deliberate search from market opportunities overseas, whereas reactive external stimuli denote a passive attitude towards export engagement which is either the result of fortuitous circumstances or a response to environmental pressures.

2.3.1 Demand in Domestic Market

Demand in the domestic market is a prerequisite to develop an exporting industry especially when the industry's products have to enter into foreign market (Basevi, 1970, p. 330). Accordingly, the growth of demand in the domestic market and the relative size of domestic market to the international market influence the dynamics of the domestic industry when planning internationalization of its business operations. In small-market countries, firms may explicitly market their products abroad and typically internationalize quicker since the domestic market is too small to absorb their products, i.e. difficult to achieve scale economies domestically and sustain self-sufficiency (Palley, 2002, p. 4; Czinkota, 2004, p. 2). However, in most instances firms begin their operations in the domestic market and produce for domestic use. Firms operating in growing domestic markets are characterized by lack of growth internationally since they can grow and make profit more easily than a firm in a mature or declining domestic market (Elango, 1998, p. 203). Thus, firms located in domestic markets that are growing faster than the global markets seem to focus on local market and are less likely to be motivated to operate abroad.

2.3.2 Demand in Regional and International Markets

Following the recent globalization trend, many regional and national markets are subsequently becoming open for foreign firms. The regional and international markets are also substantially changing into big consumer markets characterized by growing consumer goods along with high spending on luxury products and services. At the same time, firms need to align and adapt their strategies and products to different export markets so as to stay competitive in foreign markets. The favorability of foreign market climate and positive demand scenarios pull national firms to operate in such markets. Foreign demand, or excess global capacity, is the primary external change agent influencing a firm's decision to begin exporting and become international (Czinkota, 2004, p. 10). Such demand can be expressed through inquiries from abroad, unsolicited orders, or customers from abroad can visit a web site and place an international order.

2.3.3 Domestic Competition

Domestic market is the first most important market for almost all local firms. For this reason, they seriously follow-up the competitive development in those markets (Grogaard, Gioia and Benito, 2005, p. 19). When many firms with similar (substitute) products and services are operating within small domestic market, the influence on the competitive situation in the domestic market is expected to be more immediate. Levitt (1984, p. 6) noted that the competition in local markets is also a global competition since small local segments have their global equivalents everywhere and become subject to global competition. The author further argues (p. 20) that due to the expansion of modern market to reach cost-reduction along with better and cheaper communication and transport facilities, local markets are no longer protected from distant competitors. This in other words means that global competition is already started in the local markets and hence, it pronounces the end of domestic territory. Before some decades, those countries which had been applying import-substitution-then-export-strategy were holding themselves away from international competition. Others also designed policies to direct the transformation of domestic production for a protected local market and directed more of their outputs toward the domestic markets, leading to strong domestic competition.

2.3.4 International Policies and Regulations

Export and import activities in the international trade have to follow various international and regional agreements, arrangements, standards, regulations and policies. The main purpose of international trade law is to regulate the global exchange of goods and services. Bernstein and Cashore (2000, p. 78-79) indicated international rules as one of the four paths of internationalization. Trade agreements or policies and issue-specific treaties, such as the Convention of International Trade in Endangered Species or the Montreal Protocol on ozone-depleting substances, contribute to the internationalization success only when rules and regulations commit countries to change their domestic regulations. Powerful international organizations like the IMF and World Bank can also be causes of internationalization when they require borrowing countries to adopt environmental or other standards as a condition of lending.

There are several international standards and technical regulations set through multilateral trade treaties. The compliance with standards and regulations in developed countries impedes firms' ability to export and diversify their markets since it imposes significant additional costs on firms). Particularly mandatory standards and conformity assessment (such as testing, certification, labeling requirements and inspection) increase firms' start-up and short-run production costs by requiring additional labor and capital (Maskus, Otsuki and Wilson, 2005, p. 3). Firms in developing countries need to comply with differing standards in major markets such as EU, U.S. and Japan since developing countries are standards takers rather than standard makers.

2.4 Multi-Market Expansion: Higher-Order Intangible Capabilities

A firm's operational diversification into different foreign markets is dictated by its higher-order intangible capabilities, which are normally preceded by dynamic capabilities and evolved overtime. Unlike intangible assets which are described as what a firm has, intangible capabilities are described as what a firm does (Hall, 1992). In the dynamic capability hierarchy firms' can develop their capabilities in order to possess higher-order capabilities. During multi-market expansion existing resources and capabilities must be used to reproduce themselves (Rubin, 1973, p. 938; Eisenhardt and Martin, 2000, p. 1106). However, redeployment and replication of capabilities into another markets is possible only when a firm faces new opportunities or threats as replication requires effort, takes time and has a cost .Higher-order

capabilities are more exploited and even new capabilities are built through international expansion since they are information intensive, tacit, and culturally embodied. Furthermore, higher-order capabilities are less observable and imitable for they are the fruit of experience (Winter and Szulanski, 2001, p. 740). Intangible resources (which are competencies) and higher-order capabilities (or 'doing' capabilities) that are linked to the classification of are organizational cultural milieu, market-based learning and global marketing strategy, and they are the main areas of concern in the forthcoming sections.

2.4.1 Organization's Cultural Milieu

Organizational culture (OC) is defined in terms of a set of cognitive elements as the values, habits, attitudes of mind and beliefs that employees of an organization hold (Teece et al., 1997, p. 520). OC is cultural dynamics whose elements interact with one another through embedded processes (Dimitratos and Plakoyiannaki, 2003, p. 191). Since OC is intangible resource, less transferable and permeates the individuals and groups which comprise the organization, it is typically people dependent. Culture is being considered as a de facto governance system and defines the way in which a firm conducts its business for it mediates the behavior of individuals and economizes on more formal administrative methods. Hence, cultural capability applies to the organization as a whole, and can be a source of competitive advantage when it is significantly positive and economically valuable, rare, and imperfectly imitable resulting in perception of high quality standards, an ability to manage change, an ability to learn, and an ability to react to challenge further indicated that organization's culture is a product of conscious or unconscious actions of senior managements, particularly the chief executive. Organization's cultural capability serves as a platform for evolution and reproduction of capabilities for it confers the management of an organization a set of decision options. On the other hand, unlike regional or local culture, the existence of global culture in a firm shapes the path and patterns of coordination and integration of different geographically dispersed subunits, creates a system of values shared by managers around the world, and helps in smoothing the global transfer of critical capabilities. OC enhances uniqueness and plays a formidable role in helping or hindering global expansion. The most important organizational culture attributes are entrepreneurial orientations and global mindset.

2.4.2 Entrepreneurial Orientation

EO is defined as a firm's strategic choice, consisting of processes, practices and decision-making activities that led to new entry. In this case, it reflects how a firm operates rather than what it performs. EO is a result of a combination of key dimensions: autonomy, innovativeness, proactiveness, risk taking and competitive aggressiveness. Autonomy can grant freedom to individuals, teams and organizations to exercise their creativity and champion promising ideas that is needed for entrepreneurship to occur. The innovativeness dimension of a firm reflects a tendency to engage in and support new ideas, novelty, experimentation and creative process and thereby depart from existing technologies or practices, whereas pro-activeness is associated with a forward-looking perspective so as to become pioneers and thereby capitalize on emerging opportunities. Risk-taking behavior is linked with the willingness to commit large resources expecting to obtain high returns out of high risk business. Firms which are competitively aggressive have higher propensity to directly and intensely challenge and outperform their competitors in the marketplace.

Market Based Learning (MBL)

Firms acquire market knowledge through learning during international expansion. Learning about international market is a complex and difficult process that costs a foreign firm substantial time and resources that will be spent in a new country context (Lord and Ranft, 2000, p. 574). The complex nature of information available from firms and markets for internal dissemination requires a higher-order-market-based learning that results in a potent, market based competitive advantage (Morgan and Turnell, 2003, p. 257). In fact, the learning process should start by acquiring local market knowledge followed by international market knowledge through transfer across markets or direct experience in a host country. This in other words means that firms engaging intensively in the domestic market learning activities to update their knowledge about domestic competitors, customers and domestic regulations, can leverage the knowledge obtained from domestic learning to decrease the uncertainties embedded in international expansion since it provides confidence and insight to learn about current and potential foreign customers, competitors or suppliers. Market learning, therefore, has two aspects: domestic market learning and international market learning.

2.4.3 Customer Learning (CUL)

Global organizational learning orientation leads to a firm to develop customer orientation, which mainly refers to the extent to which boundary personnel are seen as acting within the context of their customers' needs and frames of reference in providing superior value to the customers. A customer oriented firm understands its target market. A customer learning process is defined as ''the set of behavioral activities that generate knowledge pertaining to customers current and potential needs for new products in a foreign market''. Especially for firms dealing with foreign markets, customer learning process generates customer knowledge by allowing firms to explore innovative opportunities arising from emerging demand in a foreign market and reduce potential risks of mis-fitting local customer needs. A customer learning process through its three aspects, i.e. customer information acquisition, interpretation and integration (1) matches new product attributes and target buyers' interests and needs, (2) provides information about customers' potential needs and future market trends, and (3) enables to restructure local customer needs, uncover benefit differences and properly position their new products. Conversations and information gathering from customers provide new knowledge for customers, i.e. expertise in what they do or buy, and meet their expectations like cost, quality, time, service, innovation and customization (Marquardt, 1996). Employees of market-driven firms also spend much time with their customers and continuously monitor customer satisfaction by paying close attention to services, before and after sales, in order to forge strong customer loyalty.

2.4.4 Competitor Learning (COL)

Market orientation approach is concerned with external analysis of an industry and the competitive environment which focuses on competitors. A competitor oriented firm can understand and create knowledge to comprehend and anticipate its competitors' immediate strengths and weakness, and their long-term capabilities and strategic thrust. In connection to the notion of competitor orientation, Armstrong and Collopy (1997) introduced the new concept, 'competitor-oriented objectives'. This concept was coined to address those managers who are using competitor- oriented information to make decisions so as to perform well relative to their competitors. Though competitors are classified into three: direct competitors, indirect competitors (substitutors) and potential competitors the definition given is applied in this

research. Competitors are ‘’firms operating in the same industry, offering similar products, and targeting similar customers’’ In evaluating resources during international expansion, firms need to assess their competitive position relative to local rivals and other foreign competitors using competitor intelligence. Competitor intelligence is information about other businesses that may have a significant impact on the way a firm conducts its business. Simultaneously, firms in the process of learning their competitors can borrow new product ideas from local market leaders and create benchmarks for new product development. A competitor learning process is defined as ‘’the set of behavioral activities that generate knowledge about competitors’ product and strategies in a foreign market’’. Similar to the customer learning process, a competitor learning process has three aspects of behavioral activities: competitor information acquisition, interpretation, and integration.

2.5. Organizational Learning (OL)

Organizational learning according to Hult and Ferrell (1997, p. 157) is a multidimensional construct characterized by being composed of disciplines, foundations, skills, elements, processes, or a checklist. Similarly, Lukas, Hult and Ferrell (1996, p. 234) defined organizational learning as the process of understanding and gaining new insights. These and other definitions of organizational learning accentuate explicitly or implicitly on factors like organizational interaction with the environment, changes in organizational modeling of the environment, and organizational action.

Various authors further differentiate organizational learning from a learning organization. A learning organization is an organization which learns powerfully and collectively and is continually transforming itself to better collect, mange, and use knowledge for corporate success (Marquardt, 1996). In this case, a learning organization can translate the learning of individual members or individual business units into something that belongs to an organization as a whole-into its organizational capabilities (Mathew, 2003, p. 119).

2.5.1 Global Marketing Strategy (GMS)

Firms have followed differentiated and undifferentiated global marketing strategies when they perform cross-border activities (Aulakh, Kotabe and Teegen, 2000). Nevertheless, managers often face problems and challenges during formulating and implementing a global strategy. The

main challenges are finding out which global strategy is appropriate and once they know what to do, how to make it happen (Yip, Loewe and Yoshino, 1988). Furthermore, managers should consider first the industry in which the business is operating for the international environment adaptation process to occur. Other internal and external stimuli such as organization structure, management processes, people and culture, market forces (determine customers' receptivity), economic factors (determine cost advantage), environmental factors (indicate existence of necessary supporting infrastructure), and competitive advantage (provide a drive of action) determine a firm's ability to develop and implement global strategies . On the other hand, centralizing authority rather than organizational split between domestic and international division is found to be the most effective way to develop and implement a global marketing strategy in a global business strategies need to be centralized, but various aspects of operations can be decentralized or centralized depending on a particular local market needs.

Firms' standardization and/or adaptation strategy in export marketing can also affect the mode of global marketing programs. Exporting firm can use the same marketing programs in different foreign markets – standardized marketing programs - or develop marketing programs that differ in terms of product, pricing, distribution and promotion to foreign target markets – adaptation marketing program - in order to facilitate their international expansion (Aulaku et al, 2000, p. 344). Firms formulating and implementing standardized marketing strategy can either (1) extend marketing strategies developed for domestic markets into foreign countries, which is more applicable for established brand names that are appealing to similar segments in different countries, or (2) proactively develop global products and marketing strategies by incorporating diverse external factors and consumers preferences from various countries, which normally involves high R&D and marketing costs. Accordingly, firms can produce and standardize their products worldwide which makes them low-cost producers (advantage of economies of scale), lower marketing costs, speed-to-market advantage with aggressive low pricing, responds to worldwide homogenized markets, and increases their share in the world market. The findings of Yip et al. (1988) further substantiates the fact that global firms using a single brand strategy are not only successful, but also able to maintain consistent images and position in different countries. Small firms operating in specialized segments that have common characteristics can also standardize their products in international marketing. Nevertheless, standardization requires quality products in a growth or maturity stage that have demand in international markets and cannot also satisfy all the needs in all countries.

CHAPTER THREE

THE RESEARCH

3.1 Hypothesis

This study focuses on resources and capabilities enabling local firms to enter into a foreign market and expand their operations in different markets. Dynamic firm-specific capabilities and competencies that are built, enhanced and maintained over time are assumed to have a positive effect on firm's internationalization. This research tested a number of hypotheses and answered questions using questionnaire, interviews of key informants, and participant observations. Given the discussion in the previous chapters, the following main and sub-hypotheses were formulated.

3.2 Operational Framework

This research consists two phases. The first phase deals with firms' initial entry into a foreign market and performance in the international leather market, whilst the second one covers aspects related to firms' multi-market expansion. Furthermore, the research has a dependent variable – internationalization process, but with sub-stages (i.e. performance in the international leather market and further expansion into different foreign markets), four independent variables, of which the first (i.e. firm-specific capabilities) affects the firm's initial entry, performance in the international leather markets and subsequent expansions, and the remaining three (i.e. organization's cultural milieu, market-based learning and global marketing strategy) affect the international expansion of a firm.

3.3 Methodology

The present section focuses on the research approach and research design that were applied in the research.

3.4. Research Approach

In the two phases of this research, two major research approaches were applied. To investigate the quantitative properties and relationships in the initial entry of firms into a foreign market and performance in the international leather markets (first research phase) qualitative research approach was used. This approach basically provides the fundamental connection between empirical evidence and mathematical expression of qualitative relationships. Since quantitative research approach involves analysis of numerical data and is associated with deductive approach, numerical estimation and statistical inference from sample data are often made to a larger population of interest. In order to do so, a large volume of data is collected from the Ethiopian leather and leather products industry based on a theory of incremental internationalization and the developed hypotheses. Furthermore, the data were validated, verified and recoded before analysis. Afterwards using descriptive and inferential statistical methods the data are organized, summarized, analyzed and interpreted so as to provide evidence for or against the pre-specified main and sub-hypotheses. Software packages such as SPSS and Excel were used for this purpose.

To gather an in-depth understanding of firms' further expansion into foreign markets (second research phase), qualitative research approach was employed. More specifically, three cases were selected for an in-depth investigation and looking patterns and processes that explain ''how and why'' the selected Ethiopian leather and leather products exporting firms expand their operations into different foreign markets. For this reason, 'qualitative' case-study data were collected, analyzed and interpreted. Particularly, the descriptive case study approach (Tellis, 1997) fits to examine the cases under study since this approach usually requires the investigation to begin with a descriptive theory. An analysis of descriptive theory was already made before getting into data collection.

3.5 Analysis–Methods

The data collected was analyzed using quantitative and qualitative analysis methods. The initial findings arose from the descriptive statistical analysis, especially in the first phase of the research, were presented using various statistics, frequency tables and graphs. In this case, all independent and sub- variables except those used to measure higher-order intangible

capabilities, moderating variables (CSCs and IDs) and dependent variable were included in the descriptive statistical analysis. However, correlation analysis was performed only between sub-variables of FSCs and indicators of performance in the international leather market. This phase involved testing the main hypothesis (MH) and the sub-hypotheses (SH1, SH2, SH3 and SH4) using Pearson's correlation test. The analysis was conducted at two levels: at industry and sub-sector levels. However, the decision to accept or decline the hypotheses was mainly made at the industry level. Moderating variables which were analyzed descriptively in the initial stage were further analyzed qualitatively.

3.6 Research Results

3.6.1 General Characteristics of Respondents

The survey revealed that out of the sample population of 33 firms in the three sub-sectors, the majority (45.5%) of respondents were engaged in leather processing (tanning) activity. This is due to the fact that the number of tanning companies engaged in the Ethiopian LLPI is relatively high. While the remaining respondents belong in equal proportion to footwear (27.3%) and leather goods & garments (27.3%) sub-sectors. On the other hand, all of the firms were owned privately. Most of these enterprises were privatized following the new free market economic policy of the country adopted before 17 years.

Using the value chain approach for Ethiopian LLPI, different types of products that are produced and exported by all sub-sectors include crust skins and hides, lining/upper leather, suede leather, glove leather, finished leather, patent leather, full grain leather, embossed leather, finished leather apparels and footwear products. Among the leather processing tanneries, considered by the study, 12 and 14 tanneries produce and export crust and finished leather respectively. Moreover, only tanneries were able to reach the highest stage on the value chain and produced finished leather[4]. In the case of leather articles, 6 leather goods & garments and shoe producing firms had sporadically exported their products.

3.6.2 Performance in the International Leather Markets

The international performance of firms is a multidimensional variable that should be measured using multiple indicators so as to thoroughly present a firm's or an industry's situation in the global arena. Accordingly, the scale of international operations as a dependent variable was measured directly using three objective indicators: (1) average volume of international sales – average export sales, (2) international sales as a percentage of total

sales – average export intensity, and (3) the number of countries in which the firm operates. By the same token, number of important international leather markets was taken into account to verify if the firm is operating in multi-market. Furthermore, the number of value packages offered to foreign customers was used to measure internationalization indirectly through export sales and intensity.

3.6.3 Exported Value Packages

The first question that the visited firms asked was whether they have made export or not. Based on their response, it is found out that 15 leather processing,
6 leather goods and garments and 7 shoe producing firms had made export. This means that, out of 36 firms in the sample, 28 firms were involved in export activities.

Table 3.1: Export of similar or different value packages

				Different					
		Export	Similar	1	2	3	4	4>	Total
Sub-sector	Leather Processing	No 0 Yes 15							
					5 33.3%	2 13.3%		8 53.3%	15 100%
	Leather goods & Garment	No 3 Yes 6							
			1 16.7%		1 16.7%	2 33.3%	2 33.3%		6 100%
	Shoe product	No 2 Yes 7							
			1 14.3%	2 24.6%	3 42.9%			1 14.3%	7 100%
Total		33 100%	2 7.1%`	2 7.1%	9 32.1%	4 14.3%	1 7.1%	9 32.1%	33 100%

Source: Own Survey (2010/11)

Another observation from the above table is that although the value packages exported by leather processing firms vary among firms within the same sub- sector, all (100%) of them offered different value packages (products with different features) to domestic and international leather markets. From 15 exporting-leather processing firms, 12 (53.5%) firms offered more than 4 different value packages to local and international leather markets. On the contrary, one leather goods and garments producer and one shoe producer sold similar vale package both in the domestic as well as international leather markets. Meanwhile, over

two-third (57.2%) of leather goods and garments producers offered from 3 to 4 different value packages to domestic and international customers. Nearly three-fourth (71.5%) of shoe producers sold either 1 or 2 different value packages to their local and international clients.

3.6.4 Export Performance

Using the real dimension of internationalization which usually concentrates on the foreign share of the firm in real activities performance in the international leather market was measured by average international sales and average export intensity. Figure 4.3 and Figure 4.5 show the results of the survey particularly dealing with average export sales volume and average export intensity, respectively both at the industry and sub-sector levels for over 5 years period from 1999 E.C. (2006-2007) to 2003 E.C. (2010-2011).

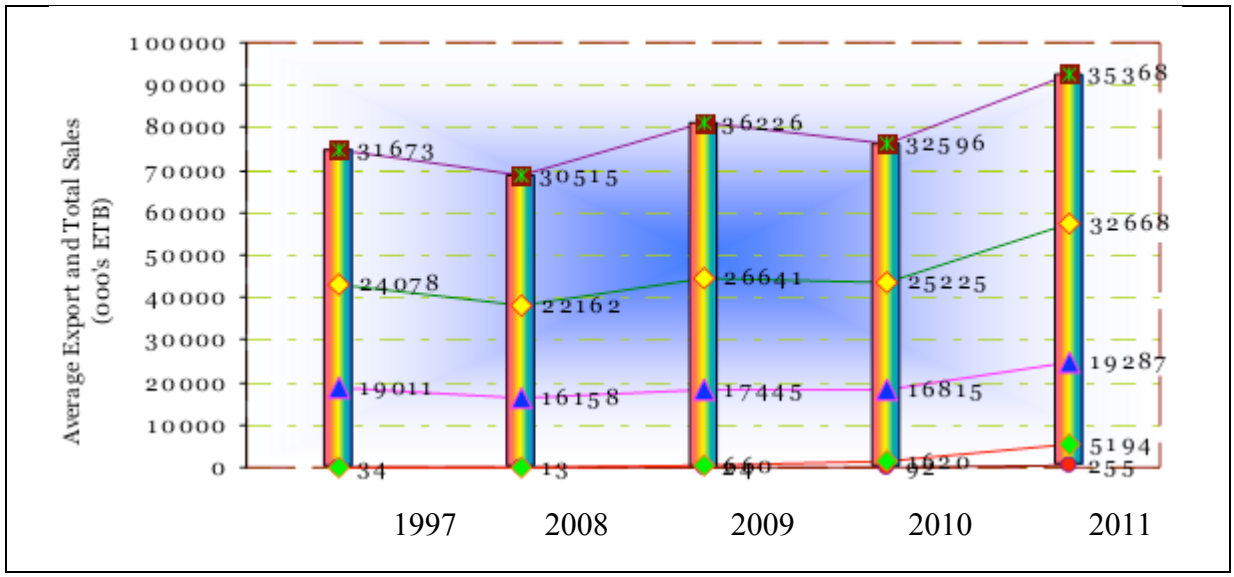
To put it differently, AIES has shown a slight growth (13.66%), whereas AITS has grown significantly by 16.51% in the period under consideration. The highest growth in both cases (14.7% and 29.5%, respectively), was achieved in the year 2003 E.C. (2010-2011). However, the volume of average industry export and total sales has declined and negative growth rates were recorded in 1999 E.C. (2006-2007) and 1998 E.C. (2005-2006) indicating that there has been a great deal of fluctuations.

At the sub-sector level, leather processors (ALPES) exhibited 11.7% growth in average export sales from 1999 E.C. (2006-2007) to 2003 E.C. (2010-2011). With intermittent fluctuations, total export sales of the sector has increased from 185.1 million in 1995 E.C. to 530.52 million ETB in 1999 E.C., showing an increasing growth of 86%. The growth rate, however, turned negative in 1999
E.C. (2006-2007) (-3.7%) and in 2002 E.C. (2009-2010) (-10%). Unlike the LP sub-sector, average export sales of LGG and SP sub-sectors have shown growth over the same period 1999 - 2003 E.C.). However, the magnitude and amount of growth in export sales were quite different with that of the LP sub-sector. Total export of LGG sub-sector rose from 0.103 million to 1.35 million ETB. The highest growth in export sales, however, was observed in 1999 E.C (191%). Meanwhile, export data on LGG sub-sector for year 1996 E.C. (2003-2004) was not available. Similarly, SP sub-sector has achieved a magnificent growth in export sales over the same period. Export sales increased by almost 900% from
0.052 million ETB in 1999 (2006-2007) to 46.8 million ETB in 1999 E.C.
(2006-2007), but the maximum growth of export sales (7525%) was achieved in year 2001 E.C. (2008-2009). On the other hand, average export sales of shoe products (ASPES)and leather and

leather goods and garments (ALGGES) sub- sectors grew at a faster rate compared to leather processing sub-sector, and reached 319% and 293% annual average growth rate, respectively during the three years period from 1997 E.C. (2004-2005) to 1999 E.C. (2006-2007). It is noticeable from the same figure that although average export sales of the LGG sub-ector grew faster than LP and SP sub-sectors, almost all of the international sales were generated from two sub-sectors: LP sub-sector (86.7%) and SP sub-sector (12.7%).

Figure 1: Average amounts of international sales at industry and sub-sector levels (5 years) from 2006/07 to 2010/11

Export Performance: Industry and Sub-sectors

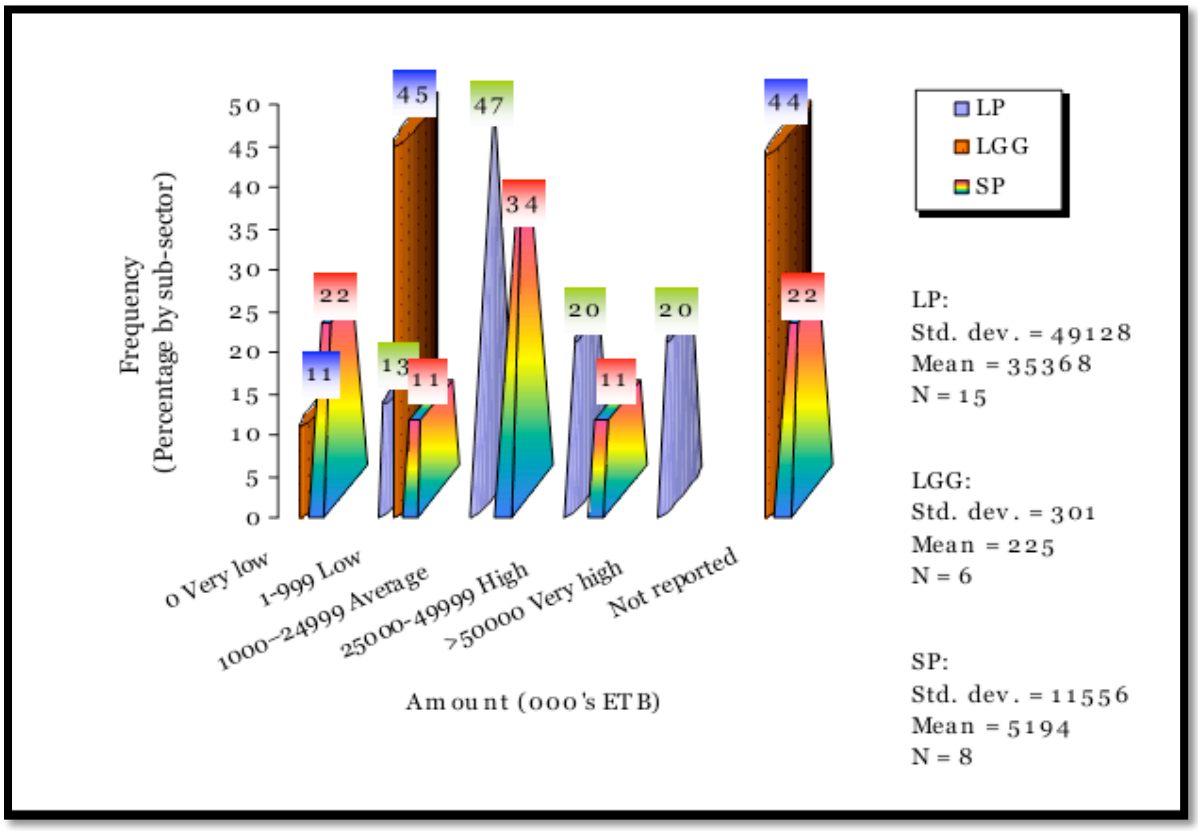


Source: Own survey (2010/11)

Accordingly, leather processing firms generated total export sales volume ranging from 0.05 million ETB to 0.17 million ETB. On average, they had an export sales volume of 35.37 million ETB. As shown in the same figure, over one-third (40%) of them had a higher international sales (more than 25 million ETB) compared with the other two sub-sectors. However, the export sales volume of LGG producers ranged from 0.00 ETB to 0.81 million ETB, whereas the total and average export sales were 1.35 million ETB and 0.23 million ETB, respectively. In this sub-sector, nearly half (45%) of the firms generated export earnings of less than 0.01 million ETB in the years under consideration. On the other hand, the average export sales volume of interviewed shoe producers was 5.2 million ETB with the total annual export sales volume reaching 35.6 million ETB. While less than half (45%) of shoe producers had average and high export sales volume from 1 million ETB to 49 million ETB. Overall, LP and SP sub-sectors achieved significantly high export performances in

terms of annual total export sales (530.52 million ETB and 46.75 million ETB, respectively) compared to LGG sub-sector.

Figure 2: Annual export sales by sub-sector for year 2006-2007

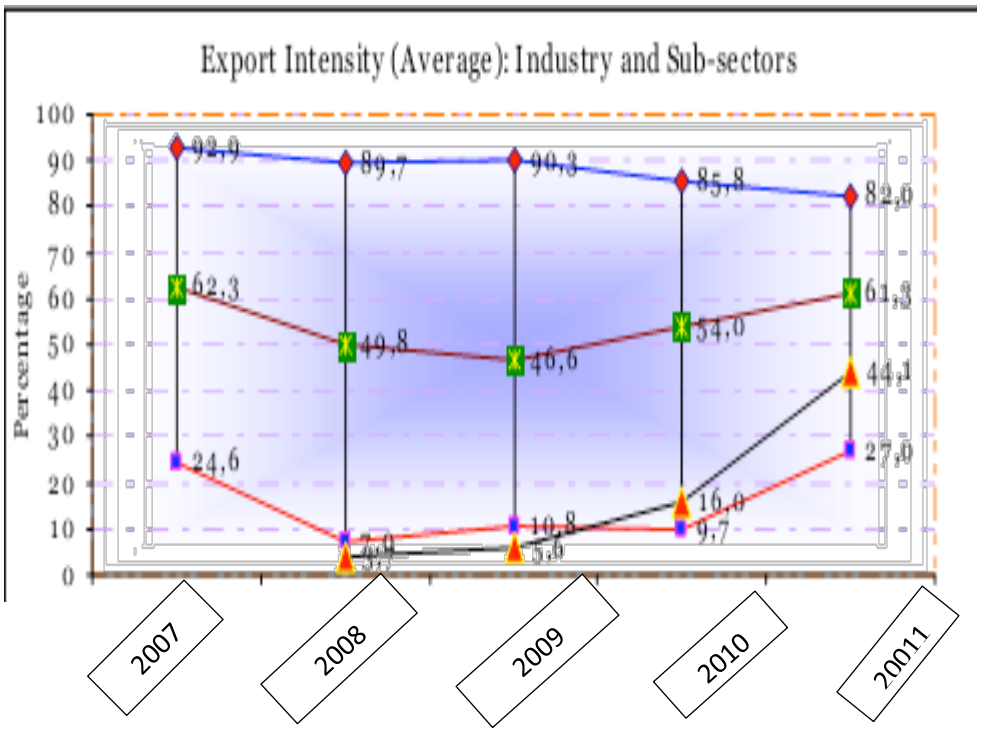


Source: Own Survey (2010/11)

Average industry export intensity declined by 1.6% from 62.3% in 1995 E.C. to 61.3% 1999 E.C. However, after a consecutive decline in the first two years by 20% and 6.4% respectively, average industry export intensity substantially increased by 31.5% over the last two years (1997-1999 E.C.). At the sub-sector level, average export intensity of footwear sub-sector increased from

3.7% in 1996 E.C. to 44.1% in 1999 E.C., which was a 1089% growth. In the same manner, although the average growth of export intensity of leather goods & garments fluctuated, it increased from 10.8% in 1997 E.C. to 27% in 1999 E.C. On the contrary, surprisingly the growth of average export intensity of leather processing sub-sector declined from 93% in 1995 E.C. to 82% in 1999 E.C.

Figure 3: Average export intensity at industry and sub-sector levels 2006/07 to 2010/11



Source: Owen Survey (2010-2011)

In order to have a closer understanding of the export performances of firms in all categories, the export intensity for year 1999 E.C. (2006-2007) was assessed (Figure 4.6). In view of that, the export intensity of nearly half (47%) of LP and nearly one-fifth (17%) of LGG producing firms was very high (100%). This means that, they have exported all of their products to one or more countries. The annual export intensity of one-third (33%) of LP and 43% of shoe producing (SP) firms ranged from 71% to 99.99%. However, the other 29% of the firms in all categories had low export performance. The remaining 7% appeared to have poor export intensity.

3.6.5 Export Destinations and Important International Leather Markets

Mostly, the export destinations of Ethiopian leather and leather products constitute: Europe, Africa, Middle East, Asia and North America. Based on the responses of interviewed firms, the firms exported their products to 35 different countries in the above continents. The box below (Box 4.1) shows the destination countries ranked (horizontally by continent and vertically by country) in accordance with their relevance to Ethiopian firms exporting leather and leather products.

Considering the internationalization process especially in the initial entry of firms' into the

international leather market, out of the total exporters (28), only two shoe producing firms exported each only to one market. The first producer exported to Italy, whereas the other to Sudan. On the other hand, the remaining

26 firms made export at least to 2 international leather markets. Out of these, 33 firms exported to 2 different markets and the remaining 23 firms exported their products to 3 and more markets in which about half of them to 4 different markets. The exporters were also asked to rank important markets (countries) from more to less attractive for their products. In this respect, Italy was selected as the first best market for 9 leather processing and 5 shoe producing firms, while China ranked as the second and third best market for leather processing firms. USA was preferred as the first important market for one-third of leather goods and garments producers, while another one-third ranked France as second important market. Again, half of leather goods manufacturer ranked USA as third important market. In the end, Germany and Sudan were chosen as the second important markets for shoe producers (Table 3.2).

Table 3.2: Rank of important international leather markets for Ethiopian leather and leather products

			1st	2nd		3rd		Export
Sub-Sector	Leather Processing	Italy	9 60%	China	6 40%	China	5 33.3%	15 100%
	Leather goods & garments	USA	2 33.3%	France	2 33.3%	USA	2 50%	6 100%
	Shoe products	Italy	5 71.4%	Germany Sudan	2 28.6%	Uganda	1 14.3%	7 100%

Source: Owen Survey (2010-2011)

3.7 Capabilities, Resources and Internationalization Process

Firms' performance in the international leather market is a dependent variable on FSCs. The position of industry driver and country-specific capabilities moderate firm-specific capabilities in the international operations. Accordingly, in the first phase, quantitative phase, of the research firms' performance in foreign markets had been assessed by taking into account the independent sub- variables of FSCs and mediating variables CSCs and IDs. A main hypothesis and four sub-hypotheses were developed in order to test the independent variable, whereas the moderating variables were qualitatively assessed. In the following

sections of the report, a descriptive statistics regarding each variable and sub- variable and indicator will be presented followed by a correlation test and qualitative analysis for the independent and moderating variables, respectively.

3.7.1 Firm Specific Capabilities (FSCs)

The construct firm-specific capabilities are a composite result of four sub- constructs. These are human resource capabilities, technological capabilities, marketing capabilities, and organizational capability and structure.

The main-hypothesis (MH) tested covers all independent sub-variables under FSCs. However, it is further decomposed into four sub-hypotheses each related to the independent sub-variable: Firm-specific capabilities have positive contributions on firm's internationalization process.

3.7.2 Human Resource Capabilities (HRCs)

The first sub-hypothesis (SH1) that was tested is related to HRCs: Human resource capabilities have positive contributions on firm's export success. In order to measure human resource capabilities, indicators like managers' recruitment, managers' experience in domestic and foreign firms, employees' performance appraisals, managers' meetings, and training opportunities for managers and non-managers were used.

In all three sub-sectors, on average the majority (i.e. more than 65%) of the visited firms recruited no fresh and experienced managers with industry specific and support qualifications in the year 1999. Even the situation was worse in case of the leather processing sub-sector, i.e. 80% of firms did not recruit fresh graduates with support qualifications at all.

Managers' experience in domestic and foreign firms, foreign exposure in terms of training and education and knowledge of foreign languages were other indicators used to measure human resource capabilities. In this regard, as can be noticed from Table 3.4, out of the sampled 33 firms, 9 (27.3%) firms in all sub-sectors reported that they have had no managers who have experience in other leading domestic firms, 22 (66.7%) firms have had from 1 to 4 managers and only 2 leather processing firms have had at least five managers. On the contrary, only 7 (21%) firms in all sub-sectors have had from 1 to 4 managers who have experience in other foreign firms and the remaining 26 (79%) firms have had no managers having experience in other foreign firms.

Table 3.3: Managers' experience in other domestic firms

	Number of managers	0	1	2-4	5-10	11-15	Total
	Rate	Very poor	Poor	Fair	Good	Very good	
Sub-sector	Leather processing	2 13.3%	4 26.6%	7 46.7%	1 6.7%	1 6.7%	15 100%
	Leather goods & garments	3 33.3%	5 55.6%	1 11.1%			9 100%
	Footwear	4 44.4%	2 22.2%	3 33.3%			9 100%
	Total	9 27.27%	11 33.33%	11 33.33%	1 3%	1 3%	33 100%

Source: Own Survey (2010/11)

Considering managers' exposure to overseas training and education, and foreign language knowledge, it can be noticed from Table 3.5 that 55% of the firms in all sub-sectors had no manager with foreign training and education exposure, but only 1 leather processing firm had five managers. Around 40% of the surveyed firms reported that they had 4 or fewer managers with foreign language knowledge, particularly English language, see Appendix B1, Table2. Taking number of employees in the leather processing and footwear sub-sectors into account, possibly it is not surprising that two tanneries and one shoe producer had 40, 57 and 40 managers with foreign language knowledge, respectively at different positions.

Firms' ability to handle strategic issues by arranging meetings for cross- functional managers is another aspect. Unlike leather goods & garments producing firms, 33% and 44% of the firms in the leather processing and footwear sub-sectors, respectively, arrange meetings 12 times per year for their cross-functional managers (Table 3.6). For leather goods & garments producers the frequency of arranging meetings was relatively low. That is, more than half (56%) of them had on average less than one meeting in every two months. Only 13% of leather processing and 22% of shoe producing firms hold meetings at least 52 times (weekly) per year.

Table 3.4: Frequency of cross-functional managers' meeting

	Number of managers	1 - 6	8 – 11	12	24	≥52		Total
Sub-sector	Frequency	Seldom	Some Times	Frequently	More frequently	Most Frequently	Not reported	
	Leather processing	2 13.3%	3 20%	5 33.3%	2 13.3%	2 13.3%	1 6.7%	15 100%
	Leather goods & garments	5 55.5%	1 11.1%	3 33.3%				9 100%
	Footwear	3 33.3%		4 44.4%		2 22.2%		9 100%
	Total	10 30.3%	4 12.1%	12 36.4%	2 6%	4 12.12%	1 3%	33 100%

Source: Own survey (2010/11)

In evaluating the human development aspect of firms, availability and frequency of training opportunities for managers and non-managers was considered. In this case, managers in 19 (58% of the) firms in all sub-sectors took part in less than 2 trainings per year, while non-managers in 25 (76% of the) firms have taken less than 4 trainings. Managers in 5 (15% of the) firms have taken from 3 to 5 trainings, but non-managers only in 2 (6% of the) firms had from 7 to 15 trainings.

3.7.3 Technological Capabilities (TCs)

Technological capabilities were the second sub-construct used to analyze firm- specific capabilities. The corresponding sub-hypothesis (SH2) that was tested in order to investigate the contribution of technological capabilities on the internationalization process was: Technological capabilities have positive contributions on firm's export success. Major replacement of core machineries, technology upgrading and consulting service, and investment in IT were used to measure the sub-construct. During their life time, 40% of the firms in all sub-sectors have not made any major replacement on their core machineries, whereas 18% of the firms made replacement only once. The other 33% of the firms have made major replacement from 2 to 3 times and only 3% of the firms have made replacement 4 times throughout their life (Table3.5).

Table 3.5: Frequency of major replacement of core machineries

	Number of replacements (lifetime)	0	1	2	3	4		Total
	Frequency	Seldom	Some Times	Frequently	More frequently	Most Frequently	Not reported	
Sub-sector	Leather processing	9 60%	2 13.3 %	2 33.3%	1 6.7%		1 6.7%	15 100 %
	Leather goods & garments	1 11.1%	2 22.2 %	2 22.2%	2 22.2%	1 11.1%		9 100 %
	Footwear	3 33.3%	2 22.2 %	2 22.2%	2 22.2%			9 100 %
	Total	10 30.3%	13 39.4 %	6 18.2%	6 18.2%	1 3%	2 6%	33 100 %

Source: Own survey (2010/2011)

In connection with replacement of major core machineries, the selected firms were asked whether they have made any technological upgrading in the past 5 years and the reasons why they did so. About one-fourth (25%) of the interviewed firms, the majority of them were in the leather processing sub- sector, have not made any upgrading on their technology. While 43% of firms made upgrading only once and 21% of firms made from 2 to 3 times in the past 5 years. Only very few firms (3 or 9%) in the leather goods and garments and shoe producing sub-sectors have made upgrading more than 4 times. The reasons to go for upgrading of technology given by most firms were the same with few exceptions in the leather processing sub-sector. One-third (34%) of firms in leather processing sub-sector, more than one-fifth (22%) firms in the leather goods and garments sub-sector, and two-third (67%) of firms in footwear sub-sector indicated that sensing need of their customers was the first reason to go for upgrading decisions. While competitors' move in the market and being tipped off by the technology supplier were ranked as the second and third reasons for upgrading decisions by firms in all sub-sectors. Additional two reasons were mentioned by firms in the leather processing sub-sector. That is, 20% of the leather processing firms confirmed that their upgrading decision was primarily triggered by governments' policy change, which forces all leather processing firms to produce crust and finished leather products with a higher value addition. And only one leather processing firm reported that the

desire to secure higher profit as a second reason for its upgrading decision.

3.7.4 Marketing Capabilities (MCs)

The third sub-construct under the construct firm-specific capabilities was marketing capabilities. In order to see whether there is a relationship between the sub-construct (MCs) and performance in the international leather markets, the third sub-hypothesis (SH3) was developed and tasted: Marketing capabilities have a positive contribution on firm's export success.

The indicators that were used to measure this sub-construct were investment made on delivery logistic development, promotion, distribution channels and market information collecting and processing both on domestic and international leather markets; and the reasons why investment on market information collecting and processing was made.

In the case of investment made in delivery logistic development, one-third (33%) of interviewed firms, of which more than 80% were in leather goods & garments and footwear sub-sectors, announced that they have never made any investment to develop their delivery logistic. Alternatively, more than half (55%) of the firms in all categories made investment from 1% to 5% of their total sales, whereas one-fifth (20%) of firms in leather processing sub-sector made investment from 5% to 30% of their revenue on the development of delivery logistic (Table 3.6).

Table 3.6: Investment on logistic development

	%Revenue	0	0.01 – 1	1.01 – 5	5.01 – 10	10.01 - 30		
	Rate	Very low	Low	Average	High	Very high	Not reported	Total
Sub-sector	Leather processing	2 13.3%	3 20%	7 46.6%	1 6.7%	2 13.3%		15 100%
	Leather goods & garments	5 55.6%	2 22.2%	2 22.2%				9 100%
	Footwear	4 44.4%	3 33.3%	1 11.1%			1 11.1%	9 100%
	Total	11 33.3%	8 24.2%	10 30.3%	1 3%	2 6%	1 3%	33 100%

Source: Own survey (2010/11)

Amount of investment made in three areas of marketing for both local and international marke ts was the other question which the respondents were asked. One-third (33%) of responden ts in all categories invested from 1,000 to 100,000 ETB[7] on domestic market promoti on, while less than half (40%) of firms made investment amounting from 21,000 to 100,000 ETB on international market promotion. Nevertheless, 21% of all firms have made no investment and only few firms (12%) made investment of more than 100,000 ETB to pr omote their products on local market. Meanwhile, at least one-fourth (27%) of all firms inve sted more than 100,000 ETB to promote their products on the international market.

3.8 Organizational Capability and Structure (OCS).

The last, but not least sub-hypothesis (SH4) tested examines the sub-construct OCS: Organizational capability and structure has a positive contribution on firm's export success. The indicators used to measure the sub-construct are team based corporate planning and coordination, skill based teams for strategic decisions, amount of endowed responsibility and autonomy, and number and necessary foreign language skills of staff in foreign trade department.

The majority (80%) of firms in all sub-sectors reported that they used an open and team based approach for their corporate planning and coordination. Especially in the leather processing and shoe producing sub-sectors nearly all of them (87% and 90%, respectively) followed an open and team based approach, while at least half (55%) of the firms in the leather goods and garments sub- sector did the same. The firms were also interviewed whether they make non-routine (strategic) decisions in a skill-based team or not. Accordingly, about 58% of the firms in all sub-sector made non-routine strategic decisions in a team. More specifically, majority (78%) of firms in leather goods and garments sub-sector replied that they used skill-based teams in order to make strategic decisions (Table3.7).

Table 4: Team based non-routine decisions

		Totally disagree	Disagree	Neutral	Agree	Totally agree	Missing	Total
Sub-	Leather	1	3	2	6	1	2	15
Sector	Processing	6.7%	20%	13.3%	40%	6.7%	13.3%	100%
	Leather goods		1	1	4	3		9
	& garments		11.1%	11.1%	44.4%	33.3%		100%
	Footwear	2	1	1	4	1		9
		22.2%	11.1%	11.1%	44.4%	11.1%		100%
	Total	3	5	4	14	5	2	33
		9.1%	15.2%	12.12%	42.4%	15.2%	6%	100%

Source: Own Survey (2010-2011)

In assessing the endowment of managers' responsibility and autonomy in the visited firms, 67% of firms in all sub-sectors affirmed that they had a system which allows managers to assume larger responsibility and autonomy in the firm. In this regard, unlike managers in leather processing and shoe producing sub-sectors in which they assumed larger responsibility and autonomy, managers in nearly 70% of leather processing and 44% of shoe producing firms, and in almost 90% of firms in the leather goods and garments sub-sector are endowed with larger responsibility and autonomy.

Finally, number of staff in foreign trade department and their foreign language skill were asked. Out of the visited 33 firms, 16 (50%) firms explained that they had not sufficient number of staff in their foreign trade department/unit. Out of them 11 (69%) firms were in the leather goods and garments, and footwear sub- sectors. On the contrary, 10 leather processing (68%) and 3 shoe producing (33%) firms responded that they had sufficient number of staff (Table 3.8). Concerning the foreign language skills of these staff, 20 (61%) firms in all sub- sectors reported that their staffs in the foreign trade department had the necessary foreign language skills, mainly English. Of the 20 firms, 14 firms were in the leather processing sub-sector.

Table3.8: Sufficient number of staff in foreign trade department

		Totally disagree	Disagree	Neutral	Agree	Totally agree	Unknown or NA†	
Sub-sector	Leather Processing		4 26.7%	1 6.7%	9 60%	1 6.7%		15 100%
	Leather goods & garments	2 22.2%	2 22.2%	1 11.1%		1 11.1%	3 33.3%	9 100%
	Footwear	3 33.3%	2 22.2%	1 11.1%	3 33.3%			9 100%
	Total	5 15.2%	8 24.2%	3 9.1%	12 36.4%	2 6%	3 9.1%	33 100%

Source: Own Survey (210/11)

3.8.1 Country Specific Capabilities CSCs)

In order to measure country specific capabilities, indicators like supply of sufficient workforce with industry-specific skills by the local education system, wage rate of quality worker, existence of industry specific policies, availability of direct investment incentives and export incentives, and support institutions were used.

3.8.2 Local Education System

Supply of sufficient number of workforce with industry specific skill has a direct relation with firms' human resource capability. The 33 firms in all sub-sectors were asked whether the local education system supply sufficient number of workforce with industry-specific skill to the leather industry. As shown in Table 4.15, one-third (33%) of the firms confirmed that they totally disagree and another 49%, of which the majority is in the leather processing sub-sector, said that they disagree. Only 6% of the firms agreed that the local education system is supplying sufficient number of staff to meet their need. The remaining firms (12%) preferred not to take a side.

Table 3.9: Supply of industry specific workforce by local education system

		Totally disagree	Disagree	Neutral	Agree	Totally agree	
Sub-sector	Leather processing	4 26.7%	7 46.7%	3 20%	1 6.7%		15 100%
	Leather goods & garments	3 33.3%	4 44.4%	1 11.1%	1 11.1%		9 100%
	Footwear	4 44.4%	5 55.6%				9 100%
	Total	11 33.3%	16 48.5%	4 12.1%	2 6%		33 100%

Source: Own Survey (210/11)

3.8.3 Wage Rate of Workers

The second indicator used to measure CSCs is the wage rate of quality workers, which directly affects the production cost of firms and their competitiveness. Nearly 43% of the respondents agreed that average wage rate of skilled workers is affordable, while 12% of firms confirmed that they could totally afford to hire any worker with higher qualification. However, over 30% of the firms responded that they could not afford to hire skilled workforce and the remaining 15% of the firms remained silent.

Table 3.10: Affordability of wage rate of quality workers

		Totally disagree	Disagree	Neutral	Agree	Totally agree	Total
Sub-	Leather		6	2	6	1	15
Sector	Processing		40%	13.3%	40%	6.7%	100%
	Leather goods	1		1	5	2	9
	& garments	11.1%		11.1%	55.6%	22.2%	100%
	Footwear	3		2	3	1	9
		33.3%		22.2%	33.3%	11.1%	100%
	Total	4	6	5	14	4	33
		12.2%	18.2%	15.2%	42.2%	12.2%	100%

Source: Own Survey (2010/11)

3.8.4 Existence of Specific Policies

The existence of specific government policies, which promote the leather industry and all the three sub-sectors in the industry, is the other measure used to assess country-specific capabilities. In this case, most firms (67%) reported that government authorities have specific policies to promote the sector. Of these firms, half (50%) of them were in the leather processing sub-sector. 12% of the firms, however, said that there is no specific policy to promote the leather goods and garments and shoe producing sub-sectors. Meanwhile, about 18% of the firms in all sub-sectors were doubtful about the existence of sector specific policies.

Table 3.11: Existence of specific policies to promote the sector

		Totally disagree	Disagree	Neutral	Agree	Totally agree	Missing or NA†	Total
Sub-	Leather			4	8	3		22
Sector	Processing			26.7%	53.3%	20%		100%
	Leather goods	2		1	2	3	1	9
	& garments	22.2%		11.1%	22.2%	33.3%	11.1%	100%
	Footwear		2	1	4	2		9
			22.2%	11.1%	44.4%	22.2%		100%
	Total	2	2	6	14	8	1	33
		6%	6%	18.2%	42.4%	24.2%	3%	100%

Source: Own Survey (2010/11)

3.8.5 Direct Investment Incentives, Export Incentives and Support Institutions

With respect to direct investment and export incentives, over 42% of the firms received direct investment incentives, whereas most firms (82%) confirmed that they have got export incentives. On the contrary, over 52% and 12% of firms in all categories reported that the sector did not receive any direct investment incentive and export incentive, respectively. Moreover, 9% of firms preferred not to say anything about investment and export incentives. The firms were also asked to tell about whether the number of institutions and agencies are growing in number to guide and support the leather industry. Most firms (nearly 55%) pointed out that the number of support institutions and agencies has grown. Over one-third (27%) of the firms, however, mentioned the number has not grown, rather it has remained as it was some years back (Table 3.12).

Table 5: Availability of direct investment incentives, export incentives and number of support institutions

	Totally disagree	Disagree	Neutral	Agree	Totally agree	Missing or NA†	Total
Direct investment	8	9	2	11	3		33
incentives	24.2%	27.3%	6.1%	33.3%	9.1%		100%
Export incentives	3	1	1	17	10	1	33
	9.1%	3%	3%	51.5%	30.3%	3%	100%
Sufficient number of	3	6	6	16	2		33
support institutions	9.1%	18.2%	18.2%	48.5%	6.1%		100%

Source: Own Survey (2010 to 2011)

3.8.5 Industry Drivers (IDs)

The existence of positive industry driver is a crucial factor for firm's decisions to enter into international leather market. For this reason, excess capacity in the domestic and international markets, domestic competition, and the contribution of existing international policies and regulations to the development of local leather and leather products producing firms were considered to measure the construct industry driver.

3.9 Demand in Domestic Market

The visited firms were requested to assess the current as well as future demand situations for leather and leather products in the domestic markets. As can be observed from Table 4.19, at least two-third of the firms in the leather processing sub-sector and over three-fourth of firms in the remaining two sub- sectors indicated that the current demand for their products is growing at a higher rate. Moreover, 15% of the firms explained that the current demand in the domestic market happened to grow at a steady rate. In the same manner, over 80% of leather processing and leather goods and garments producing firms anticipated that domestic demand for their products will grow at a higher rate in the future. Interestingly, all (100%) shoe producing firms expected to experience a high growth of demand for their footwear in the future. However, only 6% of firms anticipated that growth of future demand in leather processing and leather goods and garment sub-sectors will remain the same in the domestic markets.

Table3.13: Growth of current and future demand in domestic market

		Current Demand			Future Demand			
		Average	High	NA†	Average	High	NA†	Total
Sub-Sector	Leather Processing	2	10	3	1	12	2	15
		13.3%	66.7%	26.7%	6.7%	80%	13.3%	100%
	Leather goods & garments	2	7		1	8		9
		22.2%	77.8%		11.1%	88.9%		100%
	Footwear	1	8			9		9
		11.1%	88.9%			100%		100%
	Total	5	25	3	2	29	2	33
		15.2%	72.7%	9.1%	6.1%	87.9%	6.1%	100%

Source: Own survey (2010/2011)

3.9.1 Demand in regional and international markets

Similar to demand in domestic market, existing and future demand in the regional as well as in the international markets were assessed to check if there are export stimuli or not. 85% of the visited firms reported that growth of the current demand in the regional and international markets is high. More over almost all (88%) of firms, with the exception of leather goods and garments producers, indicated that demand in regional and international markets will likely continue growing at a higher rate in the future. In case of leather goods and garments producers, all of them (100%) expected the future demand for their products will grow at a higher rate. In contrast, 9% of firms confirmed that current demand is growing at a steady rate and future demand will also continue to grow at the same rate, as shown in Table 3.14

Table 3.14: Growth of current and future demand in regional and international markets

				Current Demand			Future Demand			
		No		Low	Average	High	No	Average	High	Total
Sub-	Leather		1		1	13	1	2	12	15
Sector	Processing	6.7%			6.7%	86.7%	6.7%	13.3%	80%	100%
	Leather				1	8			9	9
	goods & garments				11.1%	88.9%			100%	100%
	Footwear			1	1	7		1	8	9
				11.1%	11.1%	77.8%		11.1%	88.9%	100%
	Total	1		1	3	28	1	3	29	33
		3%		3%	9.1%	84.8%	3%	9.1%	87.9%	100%

Source: Own Survey (2010/11)

3.9.2 Domestic Competition

The other indicator used to measure industry driver was the level of competition in the domestic market. Based on the response, over half (55%) of the sampled firms confirmed that the competition in domestic market is high. Of these firms, half (50%) of them were engaged in the leather processing category. About one- fourth (25%) stated that the level of competition was neither high nor low. Again half (50%) of these firms were leather goods and garments producers. Whilst the other 15% of firms indicated that there is low competition, the remaining 6% reported there is no competition at all in the domestic market (Table 3.21).

Table3.15: Level of competition in domestic market

No		Lo		Average	Hig		Total
Sub-	Leather		3	3		9	15
Sector	Processing				20%		20%
	60%	100%	Leather goods &				1
	garments	11.1%		44.4%	44.4%		100 %
	Footwear	1	2	1	5		9
		11.1%	22.2%	11.1%	55.6%		100
	Tota	2	5	8	18		33
		6.1%	15.2%	24.2%	54.5%		100

Source: Own Survey (2010/11)

3.9.3 International Policies and Regulations

The visited firms were also asked to tell if the existing international policies and regulations gave them some opportunities to develop their business. In this respect, about 25% of the firms indicated that the existing policies and regulations did not give them any developmental opportunities. Out of these 25%, over 50% were shoe producers. Although over one-fifth (21%) of firms in all categories reported that the policies and regulations offered them low opportunities to develop their business, over half (57%) of them were leather goods and garments producers. Another observation from Table 3.16 is that more than 27% of firms obtained high development opportunities from existing international policies and regulations; whereas the other 15% exploited the opportunities on average. The remaining 12% of the firms either did not know the existence/relevance of international policies and regulations or did not respond at all.

Table 3.16: Developmental opportunities obtained from international policies and regulations

		No	low	Average	High	Not reported	Total
Sub-sector	Leather Processing	1 6.7%	2 13.3%	5 33.3%	5 33.3%	2 13.3%	15 100%
	Leather goods & garments	2 22.2%	4 44.4%		2 22.2%	1 11.1%	9 100%
	Footwear	5 55.6%	1 11.1%		2 22.2%	1 11.1%	9 100%
	Total	8 24.2%	7 21.2%	5 15.2%	9 27.3%	4 12.2%	33 100%

Source: Own Survey (2010/11)

3.10 Country-Specific Capabilities, Industry Drivers and Internationalization Process

The competitive position and subsequent success of firms both in the domestic as well as in the international leather markets are a function of primarily firms' own capabilities and competencies which are moderated by advanced country- specific resources (ACSRs) and existence of positive industry drivers. Since the country-specific capabilities and industry drivers are mediating variables and their effect on all sub-sectors is almost the same at least in

the Ethiopian case, they are qualitatively described so as to provide answer for the fourth research question that was raised at the beginning of the research: How can country- specific capabilities and position of industry drivers translate firm-specific capabilities into firm's export success?

In assessing the effect of country-specific capabilities on firms' internationalization process, supply of sufficient workforce with industry- specific skills, wage rate of quality worker, existence of industry specific policies, availability of direct investment and export incentives, and number of support institutions were used. Based on the results of the study, the country's education system does not supply sufficient number of workforce with industry specific skills. Hence, local firms' human resource capability is affected directly by the absence of the required workforce both in terms of quality and quantity, and subsequently this can affect their internationalization process through producing and offering quality products. In connection with workforce supply, although firms afford to pay higher wage rate in the local labor market, due to the unavailability of quality workers in the local labor market, very few firms' are forced to recruit foreigners at a higher cost. This in turn, has an impact on their production cost, which ultimately influences the unit price of products in the international leather markets. On the other hand, the country has theoretically sector specific policies to promote the sub-sectors with the leather and leather products industry, and offers export and direct investment incentives for all sub-sectors. However, the degree of utilizing export and direct investment incentives varies among sub-sectors. In this regard, the leather goods and garments sub-sector is the least in utilizing the investment incentive mainly due to the size and capacity of the firms in the sub-sector. In contrast, in evaluating the country's capability in terms of support institutions, the number of such institutions has shown growth to guide the sub-sectors.

ANALYSIS

Analyses were made in light of the research questions raised by the study. The firm-specific capabilities, country-specific capabilities and industry drivers were quantitatively and qualitatively assessed to see if they have an effect on the Ethiopian leather and leather products producing and exporting firms' performance in the international leather markets. In this research, it is also hypothesized that firm-specific capabilities tend to contribute positively to the performance of Ethiopian leather and leather products fabricating and exporting firms in the international leather markets. Furthermore, the contribution of higher-order intangible capabilities on multi-market expansion of Ethiopian leather and leather products exporting firms was qualitatively assessed. Frequencies, means and standard deviations were computed and also correlation test was performed between sub-variables of firm-specific capabilities and indicators of performance in the international leather markets. Following that, decisions were made at the industry level especially for firm-specific capabilities.

3.11 Firm-Specific Capabilities and Performance in the International Leather Markets

Prior to 1991, Ethiopia pursued socialist economic policy practicing self- reliance and was closed to foreign businesses and most leather and leather producing enterprises were owned by the government. As public owned enterprises, most of them could not develop their capabilities and resources since part of the profit generated was transferred back to the government which caused the companies to possess insufficient retained earnings for further capability and resource acquisition and development. Furthermore, the previous socialist system did not have functional institutions and systems to uphold and create a right environment for free market economic practice in the global context. This is because the privatization process has become very gradual and the privatized companies in the new free market economic system tend not to fully function in line with the capitalist economic system. Apparently, leather and leather producing companies in Ethiopia have been engaged in operation for a longer period of time. However, due to mainly lack of resources and capabilities (which made them operate at low capacity (i.e. less than 50%), non-competitive and stagnant) the majority of the companies involved in the international leather markets only

for few years indicating that there are problems in initiating the internationalization process and expanding operations in different foreign markets.

Most leather and leather processing and producing companies in Ethiopian context were found to operate at the lower level (mainly pickled and wet blue hides and skins processing) in the global leather value chain. Consequently, their export is dominated by partly primary and semi-processed leather

products, which in turn affects their foreign performances and earnings since the value offered in the products to the international leather markets is relatively low compared to export of crust hides and skins, finished leather and finished leather products at the middle and higher stages of the international leather value chain. Furthermore, the findings of this research indicate that the export performance of the Ethiopian leather and leather products industry has shown improvement. The changeable growth in average export sales and export intensity at the industry level in the past few years may be explained by the unrestricted efforts and concern of the government and international development organizations to improve the competitiveness of the industry at the international level, international orientation of 24% of the companies in the industry to operate only in the international leather market, and the strong link that the leather processing and shoe manufacturing companies have with the Italian and Chinese leather manufacturing companies. More specifically, the appreciable growth of both export sales and intensity is mainly attributed to the shoe manufacturing sub-sector.

As mentioned above, Ethiopian leather and leather products producing companies' performance in the international leather markets and further diversification into multiple foreign markets are influenced by the resources and capabilities they possessed in the domestic market as well as in the international markets during further expansions and existence of excess global demand. Nevertheless, they need to possess and deploy new resources and capabilities, and upgrade the existing ones in order to address the rapidly changing global leather market.

Analysis and discussion based on the correlation analysis between sub-variables of FSCs and indicators of performance in the global markets and the corresponding decisions are presented in this section of the study.

3.11.1 Human Resource Capabilities (HRCs)

The correlation analysis (in section 4.3.2.) at the industry level indicates that there is a significant positive relationship between HRCs and average export sales. Likewise, HRCs have positive, but not significant relationship with other indicators: average export intensity, number of export markets and value packages offered. Consequently, the finding supports the first sub-hypothesis (SH1) which supposes that HRCs contribute positively to the export success of Ethiopian leather and leather products producing and exporting companies. Considering the findings at sub-sector levels, HRCs happened to have strong positive correlation with average export sales and number of export markets especially for leather processing sub-sector. Meanwhile, significant, but not strong correlation between HRCs and export performance can be explained by the size of the company, which is measured by the total number of employees and further substantiated by the correlation analysis between size and export performance and comparison of HRCs at different stages of the internationalization process (see section 5.2).

Majority of the leather and leather producing and exporting firms in Ethiopian context have never recruited managers with industry specific qualifications. Accordingly, the present situation of the ELLPI shows that new industry specific human assets and inputs (i.e. industry specific skills, experience and talents) are not coming to the industry since the industry through its human resource management elements acquires only human assets with basic human skills or support qualifications. Therefore, the industry's human resource pool, both in terms of human resource management system and routine, is nearly the same with that of other industries in the country and is easily imitable. This indicates that nearly all firms in the country possessed less specific or generic human capital (i.e. general managerial approach to work), which its contribution to a greater number of companies is limited. Since companies in the three sub- sectors within the industry are not homogeneous due to differences in production functions and resource requirements, the human capital would have been different among the sub-sectors (e.g. Wernefelt, 1984; Barney, 1991). Although the stock of employee skills, knowledge, experience and ability that exist within a firm, which are acquired and developed over time, constitute the core human resource capabilities (Walfer and Reif, 1999), the actual stock of sub-sector specific human capabilities and talents, which contribute to value creation and innovation, happened to be very low and remained the same over time.

According to Saint Onge (2000) and Coff (2002), in the human capital intensive industry, firm-level human capital has a greater impact on value creation. Nevertheless, the finding of

this research contradicts this view. In spite of its human capital intensiveness, the ELLPI seems to process and produce products with lower value addition for its customers. On the other hand, the absence of managers with experiences in other foreign firms, and training and education exposures in overseas made the ELLPI to operate mostly with the skills and knowledge acquired in the domestic market. As a result, specific human capital and higher level of skills, which are considered to be less transferable and have higher value to fewer firms (e.g., Bailey and Helfat, 2003; Sturman et al., 2008), are tend to be absent in the ELLPI's human capital pool.

3.11.2 Technological Capabilities (TCs)

Correlation analysis was also made between TCs and indicators of performance in the international markets including number of value packages offered to domestic and international customers. The results revealed that TCs have no significant contribution to performance in the international markets both at the industry and sub-sector levels. Nevertheless, TCs have strong positive relationship with number of value packages offered both at industry and sub- sectors levels. This shows that the technological components of companies in ELLPI significantly contribute to the activities necessary to produce and deliver various leather and leather products to local and international customers. Subsequent correlation analyses were carried out between number of value packages offered and indicators of performance in the international markets to see if TCs have an indirect contribution to performance through value packages offered. Accordingly, number of value packages offered found to have significant positive correlation with average export sales (0.504, significant at
0.01, 2-tailed) and positive correlation with other indicators of performance. The results indicate that the TCs enable leather and leather producing companies to transform their physical inputs into various leather products, which at the end increase their export performance in the global leather market. Thus, the second sub-hypothesis (SH2) is accepted since TCs have positive contribution to export performance (indirectly) through number of value packages offered to the international customers.

In spite of many years of involvement in the business, majority of the leather and leather producing companies did not make any replacement and upgrading of their physical technology (i.e. core machineries). This is because the companies mainly lack investment and innovation capabilities to continuously improve the performance of their technological equipment and adapt new technologies. Since ELLPI is using imported tangible

technology, the leather and leather products producing companies seem not to have technological capabilities which constitute technological knowledge, new knowledge and know-how. In other words, the companies could not build subsequent technological capabilities due to lack of tacit technological knowledge and other capabilities. Nevertheless, the existence of physical technology by it self enabled them to initiate exporting activities and also improved their export performance to some extent (e.g. Reid, 1981; Basile, 2001). Moreover, leather and leather products producing companies upgrade their technology primarily by sensing the needs of their customers. This finding is in agreement with the international literature. Firms are forced to upgrade and replace their technologies continuously through technology acquisition and transfer caused by changes in market and technology. In the Ethiopian context also, upgrading of technology is initiated through other factors like government policy change that forced the leather processing sub-sector to produce leather with higher value addition for the local and international markets.

The finding of this research also revealed that leather and leather products producing companies possess largely tangible IT resources such as hardware, software and communication. However, they totally lack intangible IT resources such as IT managerial skills and knowledge which is considered to be unique, inimitable, firm-specific and source of competitive advantage (e.g. Meta et al.,

1995). This is mainly due to (1) the companies have made very little investment on IT, (2) they have not developed their IT capability, and (3) the existing IT resources are not properly utilized and complemented with other business and human resource (e.g. Teo and Ranganathan, 2003; Lin, 2007). As a result, the companies could not make use of the benefits of IT in order to improve their global communications and thereby their performance.

3.11.3 Marketing Capabilities (MCs)

Assessing the marketing capabilities of the Ethiopian leather and leather products producing and exporting companies, as it was clearly mentioned in the literature review, it is clear that marketing investments enable to create, build and acquire market-specific assets which to a large extent are intangible assets. Utilization of market-based assets and capabilities enhance the understanding of customers' needs and behaviours. In line with this view, it is hypothesized that marketing capabilities contribute positively towards firms' export success. Accordingly, the correlation analysis makes clear that there is a significant relationship between MCs and average export sales. MCs have also positive contribution on average export intensity, number of foreign markets and value packages offered. Therefore, the third

sub-hypothesis is supported.

Ethiopian leather and leather producing and exporting companies were found to invest mostly on tangible delivery logistic development, mainly on local distribution channels and equipments. Unlike intangible and higher-order marketing capabilities, such tangible marketing assets can be easily owned by any one and controlled at lower level. Accordingly, the companies seem to possess operational marketing capabilities whose contribution in creating distinctive marketing capabilities and supporting a market position is minimal. On the contrary, acquisition of distinctive marketing capabilities requires the companies to invest on market-based resources and activities such as promotion, and collection and processing of market information. The findings of this study revealed that majority of the companies have not made any investment on promotion in the domestic and international leather markets except for the amount they expend in the domestic market for logos, license fees and brochures.

The results of this study also indicate that Ethiopian leather and leather producing and exporting companies hardly made investment to collect and process information both in the domestic and international markets. As a result, since the companies lack relational market-based assets, they face problems in the leather markets in knowing about customer preference, identifying and selecting the right market segments and creating value that satisfy customers better than their competitors. Furthermore, the companies happened to have limited potential to develop intimate relationships with their customers both in domestic and international markets, on the one hand. On the other hand, due to low or no investment on intellectual market-based assets, it seems that the companies have little or no chance to possess types of knowledge about their competitive environment (e.g. Srivastava et al., 2001).

3.11.4 Organizational Capability and Structure (OCS)

The correlation analysis made at the industry level indicated that the organizational capability and structure contributes significantly to the performance of Ethiopian leather and leather products producing and exporting companies in the international leather markets. It is also found out that higher level organizational routines that facilitate and coordinate various tasks have positive link with number of export markets and value packages offered to customers indicating that the organizational routines and processes enable to extend their operations into new markets, and develop new product categories and new ways of doing business.

Therefore, the fourth sub-hypothesis (SH4) that was developed to know whether OCS has positive contribution to firms' performance in the international leather market is approved. Further comparisons of capabilities at different stages of the internationalization process (see section 5.2) guided to reach at the same decision as of the above; that is, OCS are found to be very important in order to enhance the export performance of Ethiopian leather and leather products exporting companies and become competitive in the global leather market.

Ethiopian leather and leather producing companies were found to have open and team based approach for their corporate planning and coordination. This is especially true in the leather goods and garments manufacturing sub-sector, where nearly all strategic decisions related to new product design and development were made by a skilled based team. The findings of this study suggest that the companies have intangible organizational resources and capabilities which are assembled in integrated individuals and groups that enable distinctive activities to be performed. However, this finding contradicts the country research result of UNIDO and MoTI (2009a, b) and winter's (2005) view of organizational capability and its contributions. According to UNIDO and MoTI, the leather and leather products industry is not competitive, which is caused by lack of the different capabilities and resources in which intangible high-level routines are one of them? Winter's view also substantiates the findings of UNIDO and MoTI; according to which higher level organizational routines grant a company a set of decision options for producing significant outputs of a particular type. Nevertheless, this was not happening in the ELLPI due to (1) nearly all companies appeared to be managed by managers who have very little international business experiences and exposures, which in turn affect the strategic decision choices of the companies, and (2) the organizational governance form. The companies appeared to be adopting hierarchical organizational governance form, which has low contribution on their performance as well as generate low outcome during international negotiations and negotiations (e.g. Iizuka, 2004).

3.12 Comparing the Capabilities of Firms in ELLPI at different Stages of the Internationalization Process

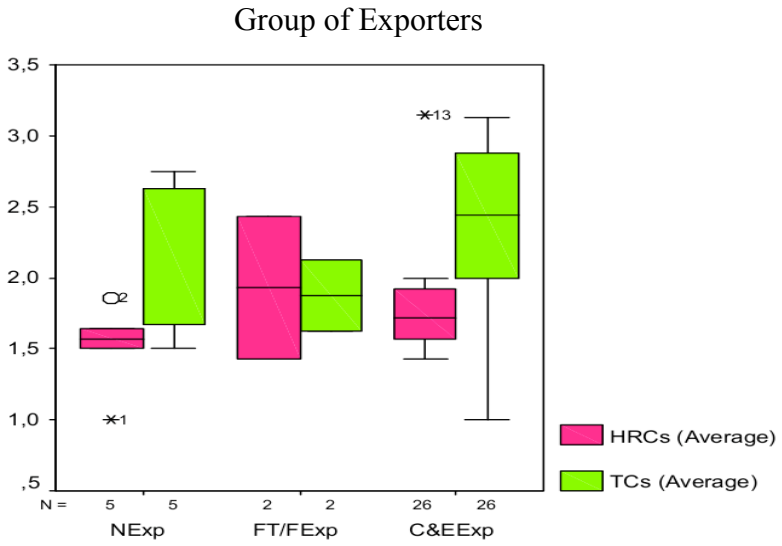
The result of this study revealed that Ethiopian leather and leather products producing companies can be categorized into three groups according to their internationalization process. The first group constitutes those companies which have not yet started exporting and were only operating in the local market. These companies are labelled as 'Non-Exporters, which is abbreviated as NExp'. Five companies, three leather goods and

garments and two shoes manufacturing companies, belong to this group. Companies which were able to cross the national boundary and export their products for the first time, but their international operations was limited only to one foreign market, were considered in the second group. These and other companies which have failed exporting are labelled as 'First Time/Failed Exporters, which is abbreviated as FT/FExp'. In view of that, two shoe manufacturing companies happened to export each to one market (i.e. Sudan and Italy); however, one of them has tried to export only once and then failed. This means that, they have not yet reached on stage two of the internationalization process, multi-market expansion, as per the evolutionary internationalization process model. Finally, the remaining 26 companies were operating in at least 2 foreign markets (multi-market) and hence, these companies have reached on the second stage of the internationalization process. The third group of companies is labeled as 'Continuing and Expanding Exporters, which is abbreviated as C&EExp'.

Following the analysis and discussion in the previous sections of this chapter, comparisons of firm-specific capabilities among the three different groups of exporters (i.e. NExp, FT/FExp and C&EExp) without making any other statistical assumptions were made to check if the groups possess different firm- specific capabilities. Note: Average of each sub-variable of FSCs is presented using five point ordinal scales, e.g. 1 =very low, 3 = average and 5 = very high. Please see Appendix A3 for how the metric data were converted into five point ordinal scales.

Figure 5.1 shows HRCs and TCs differences in the three groups. Accordingly, non-exporters were found to have lower HRCs (i.e. mean of means = 1.57) compared to the other two groups. Especially 50% of continuing and expanding exporters had HRCs ranging from 1.57 to 1.92, while the mean of means value is 1.77 indicating that the group's HRCs is below low. In general, all groups tend to have between very low (i.e. 1) and low (i.e. 2) HRCs. This implies that the leather and leather products industry appears to be deficient in HRCs. In terms of TCs, the analysis also indicated that continuing and expanding exporters were likely to have nearly the same TCs with that of non- exporters; mean of means of TCs for C&EExp and NE were 2.38 and 2.23, respectively. Although the groups are operating in different markets, they possess below average technological resources and capabilities. Nevertheless, both groups seem to have relatively better TCs than HRCs.

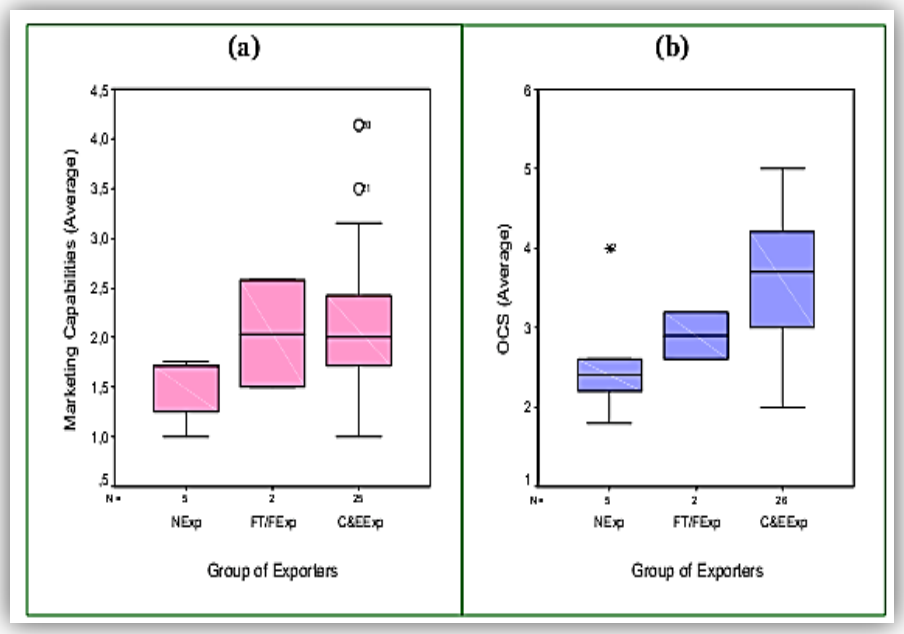
Figure 4: HRCs and TCs at different internationalization stage



Source: Own Survey (2010-2011)

Comparisons of MCs and OCS were also made among the non-exporters, first time/failed exporters, and continuing & expanding exporters. It is found out that there exists a clear difference in terms of MCs between those which are operating in the international leather markets and which are only operating in the domestic market (Figure 5.2a) though in both cases their MCs are below average. Accordingly, MCs for exporters were above low (i.e. mean of means for FT/FExp = 2.03, C&EExp = 2.17), whilst non-exporters had below low (i.e. 1.49) MCs. This indicates that operating in the international leather markets can make the exporting companies to invest on market-based assets, though not sufficient, than non-exporters. Similarly, continuing and expanding exporters were found to have a higher organizational capability (i.e. 3.6) than first time/failed exporters (i.e. 2.9) and non-exporters (i.e. 2.6) (Figure 5.2b).

Figure 5: MCs and OCS at different internationalization stages



Source: Own Survey (2010-2011)

3.13 Country-specific Capabilities, Industry Drivers and Internationalization Process

Country-specific resources and capabilities have a significant impact on the competitiveness and growth of the industry and firms. The existence of both basic and advanced CSRs implies that a country has country-specific capabilities, reflects the institutional strength of a country and also defines and shapes domestic organizational practices. More specifically, advanced CSRs, which are intangible and accumulated over a period of time through investment, enable local firms to achieve sustainable high growth rate both in the domestic and international market. Hence, the capabilities of local firms are significantly influenced by the home country's capabilities and resources. On the contrary, the capabilities of a country largely depend on the capabilities and successes of local firms in the domestic as well as foreign markets. On the other hand, for local firms to exploit internationally the country-specific capabilities and what they have developed in the domestic market there must be

positive industry drivers in the form of global excess capacity and external export stimuli. The industry conditions, which may be proactive and/or reactive export stimuli, influence local firms to initiate and sustain export operations and ultimately their international growth. In view of that the fourth research question was analyzed to see whether country-specific capabilities and position of industry drivers enable the Ethiopian leather and leather producing and exporting companies to translate their capabilities into export success.

The result of this study revealed that the country's education system does not supply sufficient number of workforce with industry-specific skills to the Ethiopian leather and leather products industry. This finding is in agreement with some research results of like Esichaikul and Baum (1998). According to their findings, in developing countries demand for labor exceeds supply in terms of quality leading to a mismatch of the suitability of local education and trainings to the needs of the leather and leather products industry. This suggests that the country's education system simply supplies sufficient, but not necessary workforce to the human capital pool of the country. This in turn substantially affects the human resource capabilities of each firm within the industry and human capital development of the industry. As a result, the country lacks advanced country-specific resources and capabilities mainly specialized high- level knowledge and skills within the stock of knowledge of the society as a whole.

On the other hand, more than half of the leather and leather products producing companies could afford to pay for skilled workforce. This finding is, however, partly in agreement with the findings of Abowd et al. (1994) and Doms et al. (1997). Accordingly, firms using more sophisticated capital equipment employ more skilled workers at higher wage rates. Since the ELLPI is neither fully capital intensive nor fully labor intensive as well as has limited paying ability, the industry is found to pay not a higher wage rate. It can also be inferred from this finding that the supply of high-skilled workers in the local market seems to be low because the overall demand for industry-specific qualifications from the leather and leather products industry is very low.

The research results in relation to investment and export incentives, and number of institutions supporting the ELLPI revealed that the industry received export incentives, while the amount of direct investment incentives received found to be low and the number of institutions supporting and guiding the industry and sub-sectors appeared to grow steadily. More specifically, the finding regarding low direct investment incentives conforms to the general notion of wealth and available resources of a country; according to

which a more prosperous country use more resources for assisting sectors and individual firms. Therefore, the type and amount of direct investment incentives, both financial and non-financial, offered to the leather and leather products industry are very low compared to other industrialized countries such as Germany (Invest in Germany, 2007). Meanwhile, the number of support institutions was found to be increasing slowly. This implies that there is a chance for the leather and leather producing companies to get support and guidance for range of their activities including promotion of dynamic leather products and support of a demand-driven strategy.

On the contrary, nearly all leather and leather products exporting companies in the industry received export promotion incentives during entry and expansion into foreign markets. Nevertheless, the export promotion programs were mostly offered by public institutions and agencies as public policy measures to enhance the export activities of the leather and leather products industry and individual companies. Such promotion approach, however, seems to be ineffective and fails to meet the particular needs of some exporters for the export incentives are provided through inappropriate delivery mechanism as a single public service supplier and most of the time the incentive system lacks stability (e.g. Balassa,1977; Hogan et al., 1991; Kumcu et al., 1995; Lederman et al., 2006).

Regarding industry drivers, the research results indicate that there exist high current demands for the Ethiopian leather and leather products in the domestic as well as international market and the demand will also be expected to grow at higher rate in the future. Moreover, the level of competition in the domestic leather market is found to be high. Meanwhile, more than two-third of the visited companies, of which majority are in the leather processing sub-sector, benefited from the existing international policies and regulations. However, the remaining companies, of which 80% are in shoe manufacturing and leather goods and garments sub-sectors, obtained very little or no developmental opportunities from the existing international policies and regulations.

Basevi (1970), Palley (2002) and Czinkota (2004) indicated that growth in the domestic market and the relative size of domestic market to the international market influence firms' decision to initiate their internationalization process.

Accordingly, the small-size of Ethiopian leather market with high demand growth stimulated the shoe manufacturers and leather goods and garments producers to initiate exporting and grow internationally since the domestic leather market cannot absorb all locally produced products and market growth attracted global competitors from Asian countries

mainly China. Moreover, the existence of high domestic demand for finished leather products from the other two sub-sectors (i.e. shoe manufacturers and leather goods and garments producers) especially for curst and finished leather products some how reduced the international growth of the leather processing sub-sector. This finding is consistent with Elango (1998) and Sharma's (2000) study, which found that growth in domestic demand, diverts export supply to domestic consumption that leads to export supply to decline. Therefore, most leather processing firms operating at a higher level in the leather value chain seem to focus on the domestic markets, mainly on organizational customers in the shoe manufacturing and leather goods and garments producing sub-sectors. This also implies that import of finished leather that is used by shoe manufacturing and leather goods and garments producers will decline and thereby save foreign currency.

High growth in current and future demand at the regional and international markets attracted the Ethiopian leather and leather products producing companies to export their products to different foreign markets mainly to European, Far East and African countries. Particularly, the global leather market is characterized by consumers who are willing to spend on luxury– genuine and expensive leather products. This implies the Ethiopian leather and leather products' export may continue growing since the products are produced using high quality, fine grain and good fibre structure hides and skins.

The international standards, policies and technical regulations benefited the three sub-sectors within the ELLPI differently. This result complements the study of Chen et al. (2006) that shows the existence of strict international standards and regulations in developed countries hamper firms' ability to export and diversity into these markets. Accordingly, the Ethiopian shoe manufacturing and leather goods and garments sub-sectors seemed to obtain very low developmental opportunities due to high standards and technical requirements set on consumer products by industrialized countries. However, due to strict environmental standards (Beghin, 2000), the Ethiopian leather processing sub-sector benefited at least moderately since it, especially in the first two phases of the value chain (pickled and wet blue), processes primary products using large inputs of raw hides and skins and chemicals, which is not normally allowed in the industrialized countries. Therefore, the standard stimulated the internationalization process of the sub-sector for there exists higher demand worldwide for pickled and wet blue products, on the one hand. On the other hand, it reduced the country's foreign earnings for processed and semi-processed leather products have lower exchange values than finished leather products in the international markets and likely to cause severe environmental damages in the country.

CHAPTER FOUR

CONCLUSIONS AND POLICY IMPLICATIONS

4.1 Conclusions

The main objective of this study is to look over the dynamics of internationalization with particular emphasis on Ethiopian leather and leather products exporting companies. To meet this objective, four research questions were posed and a main-hypothesis and four sub-hypotheses related to question number 2 (i.e. firm-specific capabilities) were formulated at the beginning of the research. The questions and hypotheses were formulated based on the adapted new integrative evolutionary model of internationalization since it deals with the dynamic graduation of a firm from being a local firm to an international firm by acquiring, generating and utilizing capabilities and resources. The contribution of capabilities and resources to the performance of Ethiopian leather and leather products producing and exporting companies in the international markets at industry and sub-sector levels, as well as at different stages of the internationalization process was assessed.

The companies in the Ethiopian leather and leather products industry are found to operate at different stages of the internationalization process. The non- exporters (i.e. 3 companies in LGGs sub-sector and 2 companies in SP sub- sector) are operating only in the domestic leather market. First time or failed exporters include two shoe manufacturing companies which are operating at the first stage of the process, whereas the other 26 companies are continuing and expanding exporters since they operate in more than two foreign leather markets. In most cases, non-exporters tend to have lower dynamic FSCs than first time/failed exporters, and continuing and expanding exporters.

FSCs seem to contribute positively to the performance of leather and leather products producing and exporting companies in the international leather markets. Clearly speaking, the companies' HRCs, MCs and OCS contributed directly to their performance in the international leather markets, while TCs contributed indirectly to their performance through value package offered to customers. Although the capabilities enabled the companies to enter into foreign leather markets and contributed somehow to their performance in the

international leather markets, the companies possess low HRCs and MCs, below average TCs and above average organizational capabilities. Moreover, the country possesses low CSCs since most of the resources are basic CSRs, rather than advanced CSRs. Therefore, low dynamic FSCs and ACSCs made the leather and leather products industry stagnant, non-innovative, and non-competitive though most of the companies in the industry have been operating in the international leather markets for a longer period of time. This conclusion is in agreement with the country research finding according to which the ELLPI is not internationally competitive due to low processing human skills, lack of sufficient market information, limited technological capabilities and lack of modern processing equipments (i.e. which all of them belong to FSCs); malfunction of the market system and structural problems (i.e. belong CSCs). Nevertheless, the products of the companies have very high demand both in the domestic and international leather markets.

The companies entered into the international leather markets without developing their capabilities though they have possessed resources mainly generic and less specific HRs, operational marketing capabilities, tangible Technological capabilities, lower order organizational routines and practices, and access to basic CSRs. This in other words means that they operate in the international market because of the existence of excess demand in the global leather markets, not due to their and the country's capabilities since the companies have low FSCs in addition to the country's possession of negligible ACSRs. The problem of low dynamic FSCs is further reflected during expansion of their operations into multiple foreign leather markets; little or no HOICs hampered the international expansion of the companies. Nevertheless, the existence of excess global demand for leather products played the major role to initiate their internationalization process and expand their activities in different foreign leather markets.

In the dynamic capability hierarchy, the Ethiopian leather and leather products producing companies are found to operate at nearly ''zero-level'' capability since they keep their earnings mostly by producing and selling the same products to the same customers over a longer period of time. To state it differently, in terms of dynamic capability possession (i.e. having distinctive resources), deployment (i.e. allocating distinctive resources) and upgrading (i.e. dynamic learning and building new capability), the companies tend to have poor track records. Accordingly, the low level of sector-specific human resource capabilities and talents (i.e. lack of managers with industry-specific qualification, experience in other foreign firms, and training and education exposure in overseas) is mainly caused by the country's education system which supplies sufficient, but not necessary workforce with industry-specific skills as

well as the companies' own human development and recruitment policy. In general, the absence of dynamic human resource capabilities and talents led the companies to operate with the skills and knowledge acquired in the domestic market, which at the end seriously affect the management of all resources and corporate governance, firms' performance and more importantly acquisition, redeployment and upgrading of firm and sub-sector-specific resources and capabilities.

Possessing physical (tangible) technology and below average TCs indirectly enabled the leather and leather producing companies to step into the international markets and somehow expand their activities in other foreign markets. However, insufficient technological capabilities in terms of replacing and upgrading core machineries (i.e. investment capability), and tacit technological knowledge in human resources happened to affect negatively their ability to generate new products and processes and to improve the existing ones with higher value addition (i.e. innovation capability). Similarly, due to the low level of investments made on marketing, the companies acquired only some operational (tangible) MCs. As a result, they seem in lack of distinctive higher- order MCs such as the ability to perform customer connecting process both in the domestic and international leather markets, the capability to carry out the activities necessary to move their products throughout the global leather value chain (e.g., Day, 1994) and the chance to possess the required knowledge about their competitive environment (e.g. Srivastava et al., 2001). Lack of distinctive higher-order MCs, in turn, made the companies to become non-market driven. One way of alleviating the problem of investment on marketing is that the companies can merge their financial resources so as to gather and process market information jointly. Meanwhile, higher-order MCs can help the companies to develop their ability of sensing the 'zeitgeist', which is small but significant changes in culture, and transform all this into a value that will be appreciated by future customers in the global leather markets.

Although the research finding indicated that the ELLPI has above average OCS, the organizational capabilities that the companies in the sub-sectors possess are low-level organizational routines and processes. Hence, in the organizational capability development process, the ELLPI is still operating at the lower stage (i.e. founding stage). The remaining two stages in the process (i.e. development and maturity stages) need to be supplemented so as to have a well developed and maintained market-based internal organizational capability. A market- based organizational capability which is higher-level routines embedded in individuals and groups in the companies, in turn, facilitates and supports their entry into and subsequent expansions in foreign markets.

The higher-order intangible capabilities of the companies in the case study were not adequate to facilitate their international expansion activities. Except the third case company, TTAI, that has above average international EO, GM and customer learning capability, the rest case companies currently do possess lower level of HOICs (i.e. lower level of international EO, GM and MBL capabilities), which at the end influenced their global marketing strategies. Nevertheless, the companies are acquiring dynamic firm-specific capabilities which can be considered as basis to possess and develop their HOICs. HOICs are more developed, exploited and even new capabilities are built, when the companies involve in international expansions and learn the environment in which they operate (through domestic and international learning efforts) instead of learning the best strategy of other leather products producing companies.

The limited resources they have must also be allocated to all stages in order to procure human, technological, marketing and organizational resources, which at the end make the companies to produce lower quality products and lead to low capacity utilization. Therefore, specializing in a particular area such as pickling, wet blue, crusting, lining or finishing (in the tanning sub-sector) would enable a tanner to reduce its cost of production and produce quality products. The other two sub-sectors (shoe manufacturing and leather goods and garments sub-sectors) can also increase their performance and competitiveness in the global leather market, if they focus on specific areas of operation (product lines).

4.2 Policy Implications

Due to the ELLPI's substantial contributions to the country's foreign earnings, employment creation, fixed capital formation and value of production, the Ethiopian government and developmental partners are using ''Top Down (Pull) Approach'' and are promoting mainly the tanning sub-sector to produce high quality and sufficient finished leather products for the local market and crust leather products for export markets. Using locally produced and relatively cheap finished leather products, the footwear sub-sector can produce quality shoe products for export markets, whilst the leather and leather goods and garments products are being promoted through a ''Made-in-Ethiopia'' program to engaged in the highest segments of foreign markets.

Five intervention areas at macro and meso-levels were identified to implement the TDA strategy. They are macro-economic policies & finance (macro-level), raw material (meso-level), industrial management & market support (meso- level), investment promotion

(macro-level) and infrastructure (macro-level). Further intervention areas at micro-level were identified by MoTI to upgrade the selected 6 tanneries and 5 shoe manufacturing companies' production performance to meet the international best practices (MoTI, 2005, 2007a, b, c). The identified intervention areas at macro, meso and micro levels will enable mainly the selected companies to acquire basic human, technological, marketing and organizational resources, if implemented properly. Nevertheless, the companies still lack dynamic FSCs and HOICs which are difficult to imitate and are sources of sustainable competitive advantage in the international leather markets. Hence, the existing basic resources within the companies and the industry need to be developed and exploited so as to have dynamic capabilities. Furthermore, the companies need to possess and allocate distinctive resources, and learn and build new capabilities dynamically. HOICs are built on dynamic FSCs, but redeployed and replicated through leather and leather products exporting companies' international expansion into another markets. Therefore, to facilitate the internationalization process and improve the performance of Ethiopian leather and leather products exporting companies in the international leather markets new policies at the industry and company levels should be formulated and executed.

At the industry level, HRCs, MCs and OCS need to be developed first and then TCs since the industry and sub-sectors are not fully utilizing the installed capacity, rather in most cases below 50% of the total capacity (UNIDO and MoTI, 2004a, 2007a). Although possessing better technologies are regarded as better capabilities, in the current situation of ELLPI further accumulation of a large stock of valuable technological assets without having or developing other useful capabilities and competencies (i.e. HRCs, MCs and OCS) may not improve their competitiveness and performance in the global leather market. Producing dynamic capabilities internally within the industry and the company or acquiring them from external sources would enable them to fully utilize the existing idle capacity as well as to build competencies (intangible resources) and doing capabilities (HOICs) that are crucial for successful international expansions. Possessing higher level OCM and MBL capabilities eases the managers' problems and challenges in formulating and implementing the appropriate global marketing strategy (GMS). Increase in dynamic FSCs along with excess global demand for Ethiopian leather products leads to higher performance in the global leather markets. However, the performance will be even higher if the companies develop and replicate their HOICs in multiple- foreign markets. Lastly, the companies' multi-market expansion is also dictated by the type and nature of international network and partnership they have and the country's image. Since the three sub-sectors are not homogeneous in their production and capability requirements and addressing customer needs and preferences in the global

leather markets, detailed sub-sector wise studies taking more new variables (such as the effect of networking and country image) would be necessary in order to exploit the existing basic CSRs (hides and skins and cheap labor supply).

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Appendix A: Research Questionnaire

Addis Ababa University
School of Economics
MA in competition Policy and Regulatory Economics

Questionnaire for Leather and Leather Products Exporting Companies in Ethiopia

This questionnaire is devised to gather information on the internationalization process of leather and leather products exporting enterprises in Ethiopia and present the data in a way that will be helpful to exporting enterprises, leather sector, institutions and agencies and those who make export policies and strategies. I kindly request your genuine responses. Please fill out and return the questionnaire properly.

Thank you very much in advance for your cooperation and support in realizing this research project.

GeneralDirection:

1. Your detailed address is required in case any potential foreign client wants to contact you to buy your product/s or to establish mutually benefiting partnership with your company.
2. Any confidential data obtained from you will only be used in aggregated form in any report or presentation concerning the survey and all data will be treated as highly confidential.
3. You will get the addresses of potential foreign clients and the final report of this research.

-

Part I: General Information

1. 1. Company Name: _____ Address (city): _____
Telephone - Office: 00251 (_____) _____
Mobile: 00251 (_____) _____
E-mail: _____
Web site: _____
Contact Person: _____
Telephone: Office: 00251 (_____) _____
Mobile: 00251 (_____) _____
E-mail: _____

1. 2. Month and year of establishment (E.C. /G.C.) _____

1. 3. To which type of business does your company belong? (Check only one)

☐ State-owned enterprise | ☐ Private business (PLC) | ☐ Joint-venture
☐ Wholly-foreign owned enterprise | ☐ Partnership | ☐ Share company
☐ Other (please specify) _____

1. 4. Which type/s of product/s are you processing and/or producing? (Please check all that apply)

	Processing	Producing	Both
Pickled sheep skin			
Wet blue sheep skin			
Crust sheep skin			
Wet blue goat skin			
Crust goat skin			
Crust cow hides			
Finished leather apparels			
Finished glove leather			
Patent leather			
Lining/upper leather			
Suede leather			
Full grain leather			
Corrected grain leather			
Embossed leather			
Other (please specify)			

1. 6. How long your firm is engaged in this business?
Years

How long have your company been in exporting business? _____
Years

Part II: Firm Specific Capabilities

Human Resources Capabilities

2. 1. Among your new recruits in the last 3 years, your recruitment include (Please write actual figures or numbers)

	Fresh Graduate			Experienced		
	2001 (2004/05)	2002 (2005/06)	2003 (2006/07)	2001 2008/09)	2003 (2009/10)	2003 (2010/11)
Managers with industry-specific						
Managers with 'support qualifications' (e.g. Management,						
Managers with unspecified						

2. 2. The number of managers you have with (Please write the actual figure /number/ or guess when you do not know the exact figure)

	Number
Experience in other leading domestic firm in this Sector	
Experience in other leading foreign firm in this sector	
Foreign exposure in terms of training and education	
Knowledge of foreign language	

2. 3. How many times per year do you conduct (systematic) performance appraisal of your employees? _____times per year

2. 4. Do you arrange meetings for your cross-functional managers in order to handle strategic issues? If so, how many times per year? _____times per year

2. 5. How many times on average per year do you offer training opportunities for your managers and non-managers? If so, _____ times per year for managers and _____ times per year for non-managers

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Organizational Capability and Structure

Please answer the following questions by putting a mark in the appropriate column corresponding to each question.

Scale: 1 = Totally disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Totally agree

		1	2	3	4	5
2. 6	Your corporate planning and coordination is an open and team based approach					
2. 7	You encourage cross-functional skill based teams for functional non-routine decisions					
2. 8	Your functional managers are endowed with larger responsibility and autonomy					
2. 9	Your foreign trade unit/department has sufficient number of staff					
2. 10	Your foreign trade unit/department has staff with necessary foreign language/s skill					

Technological Capabilities

2. 11. During the lifetime of your firm, have you made major replacement of your core machineries (here replacement is made mainly due to technological reasons or other strategic reasons. Getting immediate competitive edge over competitor is not primary objective)? If so, _____times

2. 12. For the last 5 years, did you go for upgrading (please note that 'upgrading' in this question is a continuous process directed to keep firm on-goingly competitive against competitors. In 'upgrading' firm emphasizes on more on enhancing such advantage to attain an edge over the competitors, which will ultimately improve firm's performance. In upgrading scientific specification of the technology plays secondary role)? If so, _____ times

2. 13. If you made upgrading for the last 5 years, your upgrading decision was pushed by (please rank the following group in terms of their frequency and strength of influence in your upgrading decision)

	Rank
Sensing need of the customers	
Competitors' moves in the market	
Being tipped off by the technology suppliers	

2. 14. How many times did you consult technological consulting service for the last 5 years? _____ Times.

2. 15. Did you make investment in acquiring IT service? If so, _____ times.

2. 16. Your IT investment was made in

	Times per YEAR
Completely new facility installation	
Upgrading existing facility	

Marketing Capabilities

2. 17. In last 2 years, have you made investment in delivery logistic development? If so, on average _____ % Revenue

2. 18. In last 2 years, have you switched your backward value chain suppliers? If so, approximately _____ times per month

2. 19. In last 2 years, have you made investment in the following areas? If so, please write the actual figures and/or percentage to total sales/revenue. Note: If you do not have detailed information on each investment areas, you can write total investment.

Investment areas	Amount spent			
	On domestic market		On international market	
	Amount (Birr)	% of Revenue	Amount (Birr)	% of Revenue
Promotion				
Distribution channels				
Market information collecting and processing				
Total				

2. 20. Please rank the following groups in terms of your allocated investment for the last 5 years in collecting and processing information regarding

	Rank
Customers	
Competitors	
Suppliers	

Part III: Country-Specific Capabilities

Please answer the following questions by putting a mark in the appropriate

column corresponding to each question.

Scale: 1 = Totally disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Totally agree

		1	2	3	4	5
3. 1	Local education system is supplying sufficient number of workforce with industry-specific skill					
3. 2	Average wage rate of quality workers is affordable					
3. 3	Authorities have specific policies to promote this sector					
3. 4	This sector receives direct investment incentive					
3. 5	This sector receives export incentives					
3. 6	Number of institutions and agencies are growing in number to guide and support this sector					

Part V: Industry Drivers

Specify and speculate the following demand scenarios (opportunities) and competition situations for your product (s) in domestic, regional and international leather markets. Please put a mark in the appropriate column corresponding to each question.

Scale: 1 = No 2 = Very low 3 = Low 4 = Average 5 = High 6 = Very high

5. 1	Growth of current demand in domestic market						
5. 2	Growth of future demand in domestic market						
5. 3	Growth of current demand in regional and/or international markets						
5. 4	Growth of future demand in regional and/or international markets						
5. 5	Level of competition in domestic market						
5. 6	Existing international policy and/or regulation give your company high/low developmental opportunities						

Appendix A2: Interview Guide for Ethiopian Leather Products Exporting Enterprises

This interview is prepared to guide the thinking of the researcher during the case study phase of the research work. It should provide a guide of what to identify, cover, assess and make judgment about the internationalization processes of Ethiopian leather exporting enterprises.

Organizational Cultural Milieu (OCM)

Global Mindset

Q. 1. Was your company the first in brining new technology and process to the sector? How often does the company import/acquire new technology and process? How important have those technologies become to the company?

Q. 2. How does the company react towards best practices in this sector? (Searching, observing and adapting)

Q. 3. How was the company's preparedness in terms of allocating resources to international operations and market planning?

Q. 4. Do you think managers' international orientation (openness, aspirations, expectations, and awareness) affect company's involvement in export and expansion in the international market?

Q. 5. Which market (s) best suits your company? How does your company see different markets?

Q. 6. Do you think expansion (rapid or gradual) of your business in international market is a key factor for your company's growth and success?

Entrepreneurial Orientation (EO)

Q. 7. Does your company exploit and utilize unexpected entrepreneurial opportunities in international market?

Q. 8. Do you think that your company is innovative? What is your company's tendency to enter into experimentation, support new ideas and depart from established practices?

Q. 9. How does your company react to anticipated future needs, changes in the operating environment, and new methods and techniques? (Pro-activeness or re-activeness strategic orientation)

Q. 10. Does your company make investments in projects that have uncertain outcomes or unusually high profits and losses? (Risk taking behavior)

Market-Based Learning (MBL)

Customer learning

A customer learning process refers to the set of behavioral activities that generate knowledge pertaining to customer current and potential needs for new products in a foreign market

Q. 1. Is getting information about customers' current and potential needs and their post-purchase reaction is a priority for your company? How often does your company collect this information?

Q. 2. Does your company make efforts to learn (understand) its international customers' current and potential needs for new products? Does your company have close contact with its important customers? How does the company manage its customer relations?

Q. 3. How does your company analyze its international customer information so as to have a complete and relevant view of all of its business customers?

Q. 4. Does your company integrate the output or feedback of international customer learning process in formulating future international strategic marketing plan?

Competitor learning

A competitor learning process refers to the set of behavioral activities that generate knowledge about competitors' product and strategies in a foreign market (Li and Cavusgil, 2000, pp. 60).

Q. 5. How does your company collect information about the offers, strengths and weaknesses of its competitors for different international markets?

Q. 6. Does your company make thorough/superficial efforts to learn or understand its international competitors' product and strategies?

Q. 7. How does your company analyze its international competitors information so as to borrow new product ideas, pitch its own strengths against the competitor's weakness, internalizing the competitor's strength by first imitating and then improving on them, or nullify the competitor's strength by differentiating its own products?

Q. 8. Does your company integrate the output or feed back of international competitors learning process in formulating future international strategic marketing plan?

Institution learning

Q. 9. Does your company consider the amount of learning resulting from its (previous) international activities as being highly valuable? Q. 11. Does your company follow experiential learning (learning progressively) and/or non-experiential learning process such as 'grafting' and imitation? (Internal and external transfer of domestic and international market knowledge)

Q. 12. Does your company translate the learning of individual members or individual business units into something that belongs to an organization as a whole – into its organizational capabilities?

Global Marketing Strategy (GMS)
(Adaptation or Generalization)

Q. 1. Which channels of distribution are used by the firm to market its products abroad? (Agents, brokers, wholesalers, dealers, distributors, retailers or other intermediaries)

Does the company use the same or different channels of distribution in different overseas markets? If different, how does the company coordinate them?

Q. 2. How does the company set the prices of its products in the foreign market? (Centralized or decentralized pricing decisions)

Q. 3. Which type of promotional techniques or methods does the company use to promote its products in the foreign market? (International trade fairs, exhibitions, advertising media, personal selling, etc.)

Does the company use the same or different promotional techniques in different markets? If different, how does the company coordinate them?

Q. 4. What type of customer services does the company offer in different markets? If the services are different, how does the company coordinate them?

Q. 5. How does the company finance its competitive campaigns? (Fixed budget, resources from other markets, etc) Are the competitive campaigns planned centrally?