

**Addis Ababa University**

**College of Business and Economics Department of Management**



**Internationalization of Small and Medium-sized Manufacturing  
Enterprises: Exploring Determinant Factors**

**A Research Submitted to the Department of Management College of Business  
and Economics, in Partial Fulfillment of the Requirements for the Master of  
Science (MSC) Degree in International Business**

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## Statement of Declaration

I Hassen Awel declare that this thesis entitled “**Internationalization of Small and Medium-sized Manufacturing Enterprises: exploring determinant factors case of Addis Ababa Ethiopia**” has been composed solely by myself study and that all sources of materials used for the study have been duly acknowledged.

This study is my own original work and has not been submitted for any degree or diploma in any other University. It is offered for the partial fulfillment of the MSc Degree in International Business.

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This is to certify that the thesis prepared by Hassen Awel entitled “*Internationalization of Small and Medium-sized Manufacturing Enterprises: exploring determinant factors case of Addis Ababa Ethiopia*”. And submitted in partial fulfillment of Master’s Degree in International Business act under the university's regulations and meets the recognized values in terms of authenticity and reliability.

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# Table of Contents

<b>Contents</b>	<b>Pages</b>
Acknowledgement .....	i
Table of Contents .....	ii
List of Tables .....	v
List of Figures .....	v
Acronyms .....	vi
<i>Abstract</i> .....	vii
CHAPTER ONE .....	1
Introduction .....	1
1.1 Back ground of the Study .....	1
1.2 Statement of the Problem .....	2
1.3 Objective of the Study .....	3
1.3.1 General Objective .....	3
1.3.2 Specific Objectives .....	3
1.4 Research Questions .....	3
1.5 Significance of the Study .....	4
1.6 Scope of the Study .....	4
1.7 Limitation of the Study .....	4
1.8 Organization of the Study .....	4
1.9 Definition of terms .....	5
1.10 Concept and Definition of SME .....	5
CHAPTER TWO .....	7
Literature Review .....	7
2.1 Theoretical Review .....	7
2.1.1 Internationalization Process .....	7
2.1.2 Approaches to Internationalization .....	7
2.1.2.1 The Stage Based Approach .....	8
2.1.2.2 The Network Approach .....	8

2.1.2 Measurement of Internationalization .....	10
2.2 Empirical Review .....	11
2.2.1 SME Characteristics .....	11
2.2.2 Managerial Characteristics .....	13
2.3 Hypothesis of the Study .....	16
2.4 Conceptual framework .....	16
CHAPTER THREE .....	18
Research Design and Methodology .....	18
3.1 Introduction .....	18
3.2 Research Design .....	18
3.3 Data Types and Sources .....	18
3.4 Population and Sampling Design .....	19
3.5 Measurement of Variables .....	20
3.6 Data Collection Method .....	21
3.7 Method of Data Analysis and Presentation .....	22
3.8 Specification of the Research Model .....	22
3.9 Validity and Reliability .....	23
3.10 Ethical Considerations.....	23
CHAPTER FOUR.....	24
Data Analysis and Interpretation .....	24
4.1 Introduction .....	24
4.2 Survey Results.....	24
4.2.1 Internationalization of SMEs.....	24
4.2.2 Demographic Composition of Respondents .....	25
4.2.3 Interpretation of Results .....	26
4.3 Classical Linear Regression Assumptions Tests.....	29
4.3.1 Multicollinearity Test .....	29
4.3.2 Linearity Test.....	30
4.3.3 Normality Test.....	30
4.3.4 Homoscedasticity Test.....	31

4.4 Regression Analysis .....	32
4.5 Discussions.....	37
CHAPTER FIVE .....	40
Summary of Findings, Conclusion and Recommendations.....	40
5.1 Summary of Findings .....	40
5.2 Conclusion.....	41
5.3 Recommendations .....	42
5.4 Further Research Direction .....	42
References.....	43
APPENDICES .....	50

## **List of Tables**

Table 3.2 Measure of variables .....	20
Table 3.1 Sampling determination .....	21
Table 3.3-Reliability test.....	23
Table 4.1 Response rate .....	24
Table 4.2. SMEs engaged in international business .....	24
Table 4.3. Demographic composition of respondents .....	25
Table 4.4. Mean construct.....	27
Table 4.5. Correlations.....	28
Table 4.6. Collinearity diagnosis .....	29
Table 4.7. Model summary table .....	32
Table 4.8. ANOVA fit .....	33
Table 4.9. Regression coefficients of the variables .....	34
Table 4.10. Summary of hypothesis .....	37

## **List of Figures**

Figure 2.1: Determinants Affecting International of SMEs.....	17
Figure 4.1: Test of linearity .....	30
Figure 4.2: Normality Tests of Residuals .....	31
Figure 4.3: Scatter plot for testing homoscedasticity.....	31

## **Acronyms**

**AMSCO**- African Management Services Company

**BGs**-Born Global

**EFIC**-Export Finance and Insurance Corporation

**GDP**-Gross Domestic Product

**GTP**-Growth and Transformation Plan

**INVs**-International New Ventures

**ITC**-International Trade Center

**MoTI**-Ministry of Trade and Industry

**OECD**-Organization for Economic Cooperation and  
Development

**SMEs**- Small and Medium Enterprises

**UNDP**- United Nations Development Program

**UNIDO**-United Nations Industrial Development Program

## ***Abstract***

*The objective of the study is to explore determinants on internationalization of SMEs in Ethiopia. Given that a survey-based approach was used. The target population was small and medium size manufacturing enterprises in Ababa, Ethiopia. The choice of Addis Ababa for the study was based on size and concentration of SMEs. The study used both primary and secondary data. The primary data was collected from SME Managers (owners) and other senior managers through dispatching standard questionnaire. Secondary data was gathered from information publications such as, thesis and dissertations which were relevant to prepare literature review. Cluster random sampling technique has been used for selection of respondents. The data collected were analyzed using appropriate descriptive statistics multiple linear regression analysis. Moreover, the data have been analyzed with the help of Statistical Package for Social Science (SPSS). The empirical study presented major determinates that affect internationalization SMEs. According to the participants' perception, the study revealed that the most important determinant affecting on internationalization of SMEs was financial resource. Government and other stockholders should facilitate the financing.*

***Key words:*** *Small and Medium enterprises (SMEs), internationalization, determinants and financial resource.*

# CHAPTER ONE

## Introduction

### 1.1 Back ground of the Study

The reduction in trade barriers, rapid governments' bilateral agreements and the improvement of communication technology have increased opportunities for businesses to expand their activities in foreign markets (Javalgi et al., 2003). In conjunction with this phenomenon, previous studies suggest that there is an increasing number of Small and Medium Sized Enterprises (SMEs) conducting international business (Mohamad, 2009).

SMEs are key players in the economy and the wider eco-system of firms. Enabling them to adapt and thrive in a more open environment and participate more actively in the digital transformation is essential for boosting economic growth and delivering a more inclusive globalization (OECD, 2017). Across countries at all levels of development, SMEs have an important role to play in achieving the Sustainable Development Goals (SDGs), by promoting inclusive and sustainable economic growth, providing employment and decent work for all, promoting sustainable industrialization and fostering innovation, and reducing income inequalities. (OECD, 2017)

SMEs are a fundamental part of the economic structure in developing countries, and they play a crucial role in fostering growth, innovation and prosperity (Dalberg, 2011). Small and medium-sized enterprises form the backbone of the African economy, representing more than 90 % of businesses and employing about 60 % of workers, many of whom are women and youth. Helping more small and medium-sized (SMEs) connect to international markets would ensure that the gains from trade are broadly distributed across the workforce (ITC, 2018). Their role in Africa can be particularly powerful with its young population, where children (aged 0–14 years) make up more than 40 % of the population, and where more than 900 million new workers are expected to enter the labour market by 2050 (ITC, 2018).

Like many other African countries, the industrial sector in Ethiopia is characterized by a large number of very small, typically informal, enterprises and a small number of large firms that account for the bulk of manufacturing output and employment (Shiferaw & Mans, 2019). According to a national survey conducted by Ethiopian Central Statistical Authority (2005) SMEs Sector was the second largest employment-generating sector in Ethiopia, following agriculture (Abagisa, 2011).

As per UNDP's 2012 report, the industrial sector's contribution to total national out is estimated to be within the range of 13% in contrast to the agriculture sector which stands at 43% of total GDP in Ethiopia (Haftay, 2012). Moreover, the assessment results of GTP I implementation showed that the share of manufacturing industry in GDP has lagged behind the target. Meanwhile, the government under its GTP II has identified manufacturing industry in general and SMEs in particular as one driving strategy to achieve the objective of expanding employment and reducing poverty.

It is particularly necessary for SMEs in developing countries to internationalize, due to the increasing competitive pressure and reduction of the direct subsidies and protection they used to receive from their governments (Ghanat Abadi, 2005).

Due to the value of SMEs in economic development and lack of empirical studies on internationalization of SMEs in Ethiopia, this area is selected for this research.

## **1.2 Statement of the Problem**

SMEs play a key role in national economies around the world, generating employment and value added and contributing to innovation. SMEs are central to the efforts to achieve environmental sustainability and more inclusive growth (OECD, 2017). The contribution of MSEs along with medium enterprises accounted for about 30% of employment and 17% of GDP in developing countries (Beck & Demirguc-kunt, 2005).

Empirical evidence also suggests the contribution of SMEs in generating employment and income has become increasingly recognized around the world (Liedholm, 2001). Small and medium enterprises (SMEs) are considered as spring board for broad-based growth and enhance

competition and entrepreneurship, and hence have external benefits in terms of economy-wide efficiency, innovation, and aggregate productivity growth. In addition, MSEs boost/enhance employment more than large firms as MSEs are more labor-intensive (Ayyagari & et al., 2011).

Internationally active SMEs are emerging in greater numbers throughout the world, and they tend to be faster growing than their domestic counterparts (Knight, 2001). However, while internationalization offers opportunities for SME growth, it is a complex process which involves a range of different considerations and decisions (Fernandez & Nieto, 2005).

The internationalization process of SMEs has been subject of intensive scientific research in developed countries. However, there are very few research studies regarding Internationalization of SMEs in Ethiopia. Yehualashet Demeke (2015); Segaro, Ethiopia (2007). Thus, this area is not adequately covered by researches particularly on exploring of determinants on internationalization of SMEs.

### **1.3 Objective of the Study**

#### **1.3.1 General Objective**

The objective of the study is to explore factors determine internationalization of SMEs in Ethiopia.

#### **1.3.2 Specific Objectives**

- To explore key SME characteristics that affects the internationalization of SMEs.
- To explore key Managerial characteristics that affects the internationalization of SMEs.

### **1.4 Research Questions**

- What are SME characteristics that affect internationalization of SMEs?
- What are managerial characteristics that affect Internationalization of SMEs?

## **1.5 Significance of the Study**

Exploring of determinants on internationalization of SMEs helpful to small and medium sized manufacturing enterprises, policy makers, consultants, and government agencies that need to gain a better understanding in the area.

It also provides the way forward on how to support small and medium sized manufacturing enterprises to internationalize. Finally, the study serves as a reference for other studies related internationalization of SMEs.

## **1.6 Scope of the Study**

The research is mainly focuses on SME and managerial related determinant factors (Age of SME, size of SMEs, financial resource, manager's attitude towards internationalization, manager's experience on internationalization and managers experience on internationalization) on small and medium-sized manufacturing enterprises in Addis Ababa city administration. The selection of this geographic area is because of the presence large number of small and medium sized manufacturing enterprises in the city.

## **1.7 Limitation of the Study**

The study had limited time and financial resources to cover a larger participant sample size and a larger geographical area. Moreover, except SME and managerial characteristics other determinant factors on internationalization of SMEs have not been addressed by this study. The results therefore were limited with regard to generalizations, and therefore all determinant factors on internationalization of SMEs are not included; and also not a complete representation all SMEs in Ethiopia.

## **1.8 Organization of the Study**

The research has been prepared to comprise five chapters. Chapter one deals with a research background and statement of the problem, objective of the study, research questions, hypothesis, and significance of the study, scope and limitation of the study. The second chapter discusses

with literatures review of the study, theoretical review of internationalization and finally it drawn conceptual frame work of the study. Chapter three is concerned about research design and methodology, source of data and instrument of data collection, sampling technique & population, method of data analysis and interpretation, model formulation and specification, reliability & validity of the study and ethical consideration. The fourth chapter presented the survey result with data analysis and interpretation. Finally, the finding of the study, conclusions, recommendations and limitation of the study was presented in chapter five of the study.

## **1.9 Definition of terms**

**Internationalization:** is the extent to which a firm is involved in international business (Jayanthi, 2020).

**Manufacturing:** means a mechanical, physical, or chemical conversion of a raw material, substance, or component by using machine, equipment or labour into products that worth better value.

**Small manufacturing industry:** means an industry having a total capital, excluding building, from Birr 100, 001 to Birr 1, 500,000 in the manufacturing sector and engages from 6 to 30 workers including the owner, his family members and other employees.

**Medium manufacturing industry:** means an industry having a total capital, excluding building from Birr 1,500,001 to Birr 20,000,000 in the manufacturing sector and engages from 31 to 100 workers including the owner, his family members and other employees.

## **1.10 Concept and Definition of SME**

Proper definition of SMEs has been the subject of much debate. Obviously, it varies from country to country, depending on the purpose for which it is used, the full level of economic development (big business in Vietnam may be is considered a small in Japan) and applies various conditions such as employment or capital invested (UNIDO, 2005).

The most common upper limit appointing an SME is 250 employees, as in the European Union. However, some countries put a limit on 200 workers, while the United States is considering SMEs to include firms with less than 500 employees (OECD, SME and Entrepreneurship Outlook, 2005).

The distinction in the definition of SME extends to three categories: international definitions institutions, definitions of national legislation and industry definitions. (Berisha & Pula, 2015).

In case of Ethiopia, the small manufacturing sector which has been implemented under the micro and small enterprises was incorporated with the medium manufacturing sector by the Council of Ministers Regulation No. 373/2016 it was established under the name the Federal Small and Medium Manufacturing Industry Development Agency. Accordingly, small and medium enterprises in Ethiopia defined based on capital and labor.

# **CHAPTER TWO**

## **Literature Review**

### **2.1 Theoretical Review**

#### **2.1.1 Internationalization Process**

The term internationalization was first coined in 1920s when the organizations started framing cross border relation within the market economies. Previous studies of the internationalization discuss only the large organizations. In the last few decades, after realizing the importance of SMEs in the economy of any country, researcher realizes the need to find factors involve in the growth and internationalization process of the SMEs. In history first time research on internationalization, from SMEs perspective started in 1970's in Nordic region. At that time, contemporary researchers were heavily involved in the internal system of small and medium-sized organizations, so Nordic researchers began to formulate their own ideas to discover other aspects of the SME's foreign trade program. (Ruzzier, Hisrich, & Antoncic, 2006) .

Different authors explain the phenomena of internationalization from organization theory, marketing, strategic management and small business management perspectives. (Ruzzier, Hisrich, & Antoncic, 2006). Theories on firm's internationalization focuses on the concept that firm starts developing their internal market when the transactions cost within the firms remained lower. The process of internal market development continues until the benefits and the cost of transactions for further internationalization is equal to the margin. (Ruzzier, Hisrich, & Antoncic, 2006).

#### **2.1.2 Approaches to Internationalization**

Two major approaches explaining the behaviors of SME's internationalization are proposed in the literature: the stage approach and the network.

### **2.1.2.1 The Stage Based Approach**

The Stage Based approach to international practice has been defined as a linear and sequential process that forms a group of distinct phases. Basically there are two ways under this view which are Uppsala model (Johanson & Vahlne, 1977) and Innovation related model (Bilkey & Tesar, 1977).

By integrating the knowledge obtained from international experience it becomes easier for businesses to make decisions (Pett, Francis, & Wolff, 2004). In this way, Internationalization can be considered as a result of a series of growing decisions. According to the study by (Knight, 2001), this model is also made up of two key components: the number of committed resources and the level of commitment. The interaction between those key factors also leads to two outcomes known as static impact and dynamic effect. The static feature refers to the services that are committed to the target market and related information. The dynamic aspect is related to the impact of resources on timely decision-making and decisions associated to ongoing activities (Khayat, 2004)

The Innovation-Related Internationalization Model views internationalization as a process in which steps are similar to the introduction and development of a new product (Dhanaraj & Beamish, 2003). The basis of this view is that the process of internationalization requires a continuous new business establishment, and therefore should be a process of progressive development (Coviello & Munro, 1997). I-Models can be divided into three main categories: pre-export stage, export trail stage and advanced export stage (Coviello & Munro, 1997). In these stages, the rate of new invention is usually higher in the later stages compared to the previous phases (Bose, 2016).

### **2.1.2.2 The Network Approach**

The network approach is developed in the Uppsala school project by developing their original model (1977), (Johanson & Vahlne, 1990) indicate the importance of putting the enterprise in its network (Lin, 2012). Based on the concepts of their original model (knowledge, commitment, ongoing tasks, decision making), they try to define the motives and mechanisms of international

practice by placing business in the international framework by consolidating internal and internal relations. (Laghzaoui, 2009).

In discussing the process of internationalization of SMEs, (Coviello & Munro, 1997) point out that SMEs show a pattern of outsourcing their operations during the trading process by relying on network relationships to select a market and entry point (Lin, 2012).

They suggested that a rapid internationalization process could be initiated through partnerships with existing networks, especially global networks where key partners not only initiate the process of internationalization but also influence the way investment in the market (Lin, 2012).

Internationalization is a process that takes place within a network of three-way: extension, penetration and integration (Johanson & Mattson, 1988) . Extension is the first step a business takes to build a network, either by itself or by attaching it to an existing network. The entity will engage in new types of intangible investments such as information, contractual relationships and relationships that will connect the business with its external partners. Penetration refers to the improvement of the business environment in the network and the increasing commitment to resources. Integration means an advanced step in which a business connects to several networks and connects between different networks (Lin, 2012).

A network is defined as a center for a group of relationships (Cook & Emerson, 1978). By establishing financial, technical and market relationships with other members of network, the company expands its connections to other businesses and grows step by step its activities beyond the national borders and reached to international (Cook & Emerson, 1978). The degree and international practice are influenced by the different types of relationships developed in the network. When businesses are studied individually, completeness and competition can be seen in the international practice. Businesses in the network are equally dependent on collaborative and competitive relationships. Businesses in the network are equally dependent on collaborative and competitive relationships (Coviello & Munro, 1997).

Internationalization as an accumulative process there relationships with foreign partners are established, developed and maintained in a sustainable manner in order to achieve international business development (Johanson & Mattson, 1988). In this model advanced learning and

knowledge development through communication within the network takes great importance because a business can be considered one of the international ones if other businesses in their network are international. The position of the enterprise in the network is the result of the accumulated activity of its activities on formal or informal networks. Based on a theory that integrates these two factors, they identified four foreign trade scenarios in which the strategies of international companies are linked to the need for knowledge development and the refinement of relationships in the network. The startup has a limited relationship with other foreign businesses and thus has limited knowledge about international markets. In general, they urge experienced local agents and distributors to enter new foreign markets. The business usually starts international operations with export, which is usually taken by partners but will gather useful information for the future. Resource reform is important at this stage because the business needs, on the one hand, to increase the productive capacity of the need for a new market, and on the other hand, to improve the level of intelligence and knowledge development in new markets.

The lonely international is at an all-time high despite the lack of a market. The enterprise can gain access to new networks and expand its operations through its experience. The late starter has an internal network that will generate energy for its development internationally. Therefore, resource adjustment and operational communication in international trade are required. Internationally among other things, it is part of a developed and competitive network where members are actively engaged in international markets.

Generally, the network approach provides a consistent view of other operating models of other countries and assumes that international strategies defined by businesses are influenced by their position and status in the network. As a result, the relations with the network can drive, facilitate or even accelerate the internationalization process of the enterprises (Lin, 2012).

### **2.1.2 Measurement of Internationalization**

Many studies have used sales percentages and profits from international sources as the best way to measure internationalization. Almost all publications use these parameters to measure international performance because they immediately reflect the value of the export trade and profits from the exporting business (Chelliah, Sivamurugan, Mohamed, & Jayaraman, 2010).

## **2.2 Empirical Review**

This part of the literature review is designed to present different researches and empirical studies that have explored the relationship between SME & managerial characteristics and internationalization.

### **2.2.1 SME Characteristics**

#### **2.2.1.1 Age of the SME**

The firm's age and time in the context of international entry become important aspects of the analysis of SME internationalization and international entrepreneurs. (Ruzzier & Maja , 2015). The empirical findings concerning the effect of firm age and its capability to internationalize vary (Dancan N. Irungu, 2017).

The traditional internationalization theories such as the Uppsala, propose that the firm has to go through various stages before it becomes fully internationalized. The conclusion would be that the older the firm the more it is able to internationalize. However, with the knowledge that some firms are 'born-global' and those others by pass several stages in the traditional model, and then there seems to be no positive relationship between the age and ability of the SME to internationalize (Chelliah, Sivamurugan, Mohamed, & Jayaraman, 2010).

In fact, researches by (OECD, 2006) and (Lu & Beamish, 2002) concluded the older the firm, the less it is able to internationalize. Their argument is that the older the firm, the more established would be its routes and practices and the higher the organizational inertia and the more resistance to pursuing internationalization. Therefore, the sooner the internationalization, the easier the learning in the international environments and; the faster the firm growth (Lu & Beamish, 2002). From the above, we suggest the following proposition:

***Hypothesis 1: The effect of age of SME is significant on internationalization of SME.***

### **2.2.1.2 Size of the SME**

The relationship between firm size and export intensity has been studied frequently in the international marketing literature. The empirical findings have been mixed.

Some studies report that firm size has little or no influence on Internationalization of SMEs e.g. (Bonaccorsi, 1992), (Moen, 1999) and (Pett & Wolff, 2000)

Study conducted by (Reid, 1985) found a positive relationship between firm size and exporting activity (Reid, 1985). Moreover, (Caloff, 1994) examined the direct and indirect effects of firm size on export behavior; and the results showed that firm size is positively related to all dimensions of export behavior (Caloff, 1994).

On the other hand, (Bilkey & Tesar, 1977) and (Burton & Schlegelmilch, 1987) found a negative relationship between firm size and internationalization.

This makes it therefore critical to understand the basis of the firm size, that is, whether the size of the firm is based on number of employees, annual sales/ profits or its market share.

Findings from different researchers suggest the existence of a positive relationship between the SME and its ability to internationalize irrespective of the variable used to define the size of the SME.

Given this;

***Hypothesis 2: The effect of size of SME is significant on internationalization of SME.***

### **2.2.1.3 Financial Resources**

Affluent financial resources give firms a greater degree of freedom to contemplate wide-ranging foreign expansion possibilities without necessarily compromising among opportunities, and make the expansion process much smoother and less problematic (Ito, K., & Rose, 2002).

Available support takes a variety of forms, including export credit guarantees, pre-shipment financing, and working capital augmenting facilities. Australia's export credit agency, Export

Finance and Insurance Corporation (EFIC) for example, recently introduced the EFIC Headway, which increases access of SME exporters to working capital by up to 20%, by guaranteeing additional facilities offered by banks beyond agreed loan capacity. Trade Development Canada also provides a range of facilities, including Working Capital and Export ease programs, "Export Protect", pre-shipment financing, and Masters Accounts Receivables Guarantee to support export activities among Canadian SMEs. The level of support provision for SME internationalization appears to be similarly strong in the non-OECD economies reviewed, including Chile, Israel and South Africa. In Russia, the Chamber of Commerce Network is involved in developing the SME export support program. (OECD, Top Barriers and Drivers to SME Internationalization, 2009).

Financial resources have positive significant effect on SMEs internationalization (Talebi, Tajeddin, Rastgar, & Emami, 2017). Moreover, the study of (Pattnaik & Elango, 2009) found a positive relation between firm financial resources on internationalization and performance relationship. Consequently, (Wamono, Kikabi, & Mugisha, 2012) and (Junaidu, et al., 2012) revealed that firm financial resources positively enhance export performance of SMEs.

On the other hand (Murtala & Mohd, 2016) established that the inadequate financial resources among SMEs limits their ability to compete abroad thereby resulting in impaired export growth, reduction in national economic recovery, low contribution to the nation's GDP, poor financial performance.

***Hypothesis 3: The effect of financial resources is significant on internationalization of SME.***

### **2.2.2 Managerial Characteristics**

Difficulties from the basics of limited management knowledge have emerged as a major barrier to international SMEs in a few recent surveys. A study of American and Canadian firms, for example, reported that managerial risk perceptions and lack of knowledge about international markets were major reasons for not engaging in international trade (UPS, 2007). Differences in managerial perceptions among American and Indian engineering firms were also found by (Smith, Gregoire, & Lu, 2006) to account for the observed variations in exporting activity.

Managers' knowledge and skills constitute firm-specific intangible resources and managers play a crucial role in influencing firm internationalization regardless of its size (Leonidou & Katsikeas, 1996). Yet in smaller and younger firms the skills and knowledge of the management team are likely to be even more important and influential on the firm's internationalization and performance than in larger firms (Reuber & Fischer, 1997). More specifically, researchers focused on managerial attitude and perceptions about exporting (Leonidou, Katsikeas, & Piercy, 1998) and; (Suarez-Ortega & Álamo-Vera, 2005) international experience of managers (Reuber & Fischer, 1997) and managers' knowledge and capabilities relevant to the export development process (Hadley & Wilson, 2003).

These three managerial factors, namely: (1) managers' attitude and perceptions of internationalization, (2) management team internationalization knowledge, and (3) managers' international experience, have been included in the research model.

#### **2.2.2.1 Managers' Attitude toward Internationalization**

The significance of the top managers' attitude and perceptions for firms' behaviors has been argued and confirmed by many researchers (Prahalad & Bettis, 1986); (Leonidou, Katsikeas, & Piercy, 1998); (Suarez-Ortega & Álamo-Vera, 2005). Initiating and maintaining export activities represent the firm's behaviors and as such they are influenced by management attitudes and perceptions. This notion is confirmed by a growing number of research studies in the field of internationalization. For example it was noticed that a positive attitude toward exporting was related to the export performance in manufacturing firms (Axinn, 1988). Also it was noted by (Suarez-Ortega & Álamo-Vera, 2005) that managerial perception that export was beneficial for their firms had an influence on export intention although it did not influence export intensity. In congruence with the existing literature it is to be expected that:

***Hypothesis 4: The effect of management attitude is significant on internationalization SME***

#### **2.2.2.2 Manager's Internationalization Knowledge**

It is stated that knowledge itself and knowledge-based resources and capabilities exert an influence on the internationalization process of firms. For example, (Autio, Sapienza, &

Almeida., 2000) discovered that knowledge intensity was associated with a faster international growth. Moreover, internationalization knowledge was related to the firm's internationalization was identified by (Hadley & Wilson, 2003).

Internationalization knowledge was proposed by (Eriksson, Johanson, Majkgard , & Sharma, 1997). They identified three components of international experiential knowledge at the level of the market (foreign business knowledge and foreign institutional knowledge) and at the level of the firm (internationalization knowledge). Internationalization knowledge was related to the internationalization level (Hadley & Wilson, 2003). According to the authors, this sort of knowledge 'captures the "know-how" or procedural element of experiential knowledge; it is related to the firm's requirement for experiential knowledge that will facilitate its international operations, for example, adapting resources and capabilities to the international environment (Hadley & Wilson, 2003).

*Hypothesis 5: The effect of the level of manager's internationalization knowledge is significant on internationalization of SME.*

### **2.2.2.3 Manager's International Experience**

Many studies underline the role of international experience of managers in the internationalizing activities of firms (Reuber & Fischer, 1997). According to the study, internationally familiar management teams are considered to be influencing SMEs to engage in behaviors that lead to greater international trade. Firms with an experienced management team use foreign strategic partners and are slightly delayed in getting foreign sales after the start, leading to a higher level of internationalization. (Reuber & Fischer, 1997)

Export intensity was positively associated with managers' international experience (Suarez-Ortega & Álamo-Vera, 2005). Managers' exposure to foreign cultures increases experiential knowledge about foreign markets (Leonidou, Katsikeas, & Piercy, 1998).

There is a positive relationship between the top management team's international experience and the extent of firms' internationalization (Athanassiou & Nigh, 2002) . This observation was valid regardless of whether the team was considered as an entity or was disaggregated into the CEO

and the rest of the team. Managerial experience with internationalization would moderate the relationship between internationalization and firms' growth by reinforcing a positive influence of internationalization on firms' growth ( Autio, George , & Zahra, 2006).

*Hypothesis 6: The effect of the level of manager's internationalization knowledge is significant on internationalization of SME.*

### **2.3 Hypothesis of the Study**

With the help of sufficient and appropriate data on determinants that affect internationalization of SME, the study will test the following hypotheses:

Ha1: The effect of age of SME is significant on internationalization of SME.

Ha 2: The effect of size of SME is significant on internationalization of SME.

Ha 3: The effect of financial resources is significant on internationalization of SME.

Ha4: The effect of management attitude is significant on internationalization SME.

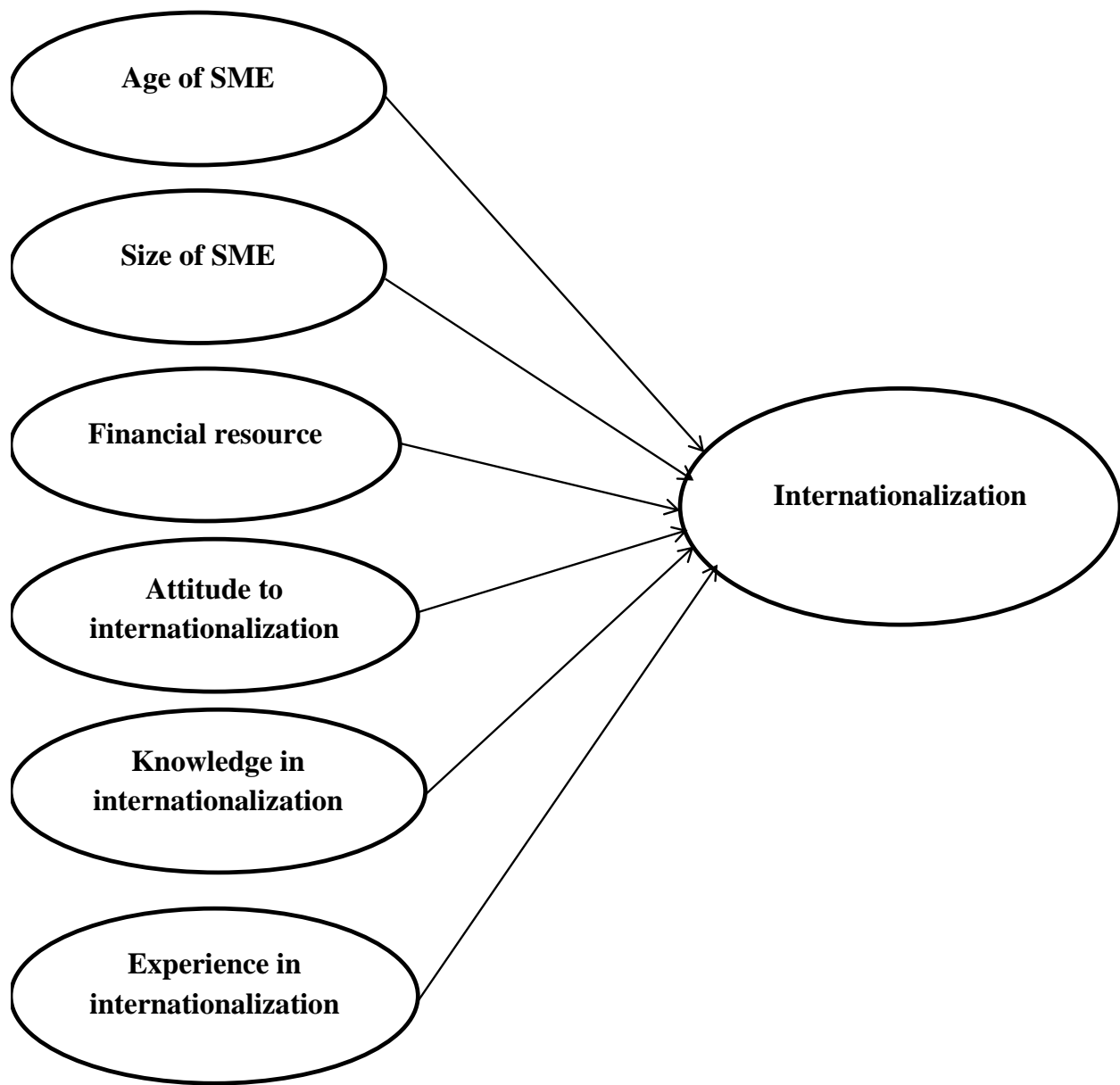
Ha5: The effect of the level of manager's internationalization knowledge is significant on internationalization of SME.

Ha 6: The effect of international experience of the top manager is significant on SME internationalization of SME.

### **2.4 Conceptual framework**

The model below is a proposition of the relationships between the dependent and independent variables in this study. The proposition is that, SME characteristics (age, size and financial resources) and managerial characteristics (attitude, knowledge and experience of managers on internationalization) influence the SME's ability on internationalization.

According to a study by Scriba Estece (2006, as cited in Mupemhi, et al 2013) on the relationship between firm characteristics and intention to internationalize showed a positive correlation between these variables. In the same study, Scriba Estece observes that attitudes and perceptions have a direct impact on firm's intentions to internationalize (Mupemhi et al, 2013)



*Adapted from Hutchinson (2006) and Cateora (2010)*

Figure 2.1: Determinants Affecting Internationalization of SMEs

## **CHAPTER THREE**

### **Research Design and Methodology**

#### **3.1 Introduction**

In this chapter the research methodology that was used for this study has been discussed. Topics of coverage that was include research design, population and data type source, sampling design, and data collection method, data analysis and presentation method, finally validity and reliability are included.

Research methodology is a way to systematically solve the research problem as well as understood as a science of studying how research is done scientifically (Kothari, 2004). Research methods may be understood as all those methods/techniques that are used for conducting of research.

#### **3.2 Research Design**

In this study explanatory, exploratory and descriptive analytical design type of research was undertaken. This involves using quantitative approaches to collect primary data from a large number of respondents with the intention of projecting the results to a wider population. To answer the research objectives listed above it was used a comprehensive survey.

#### **3.3 Data Types and Sources**

The study used both primary and secondary data. The primary data was collected SME Senior Managers through dispatching standard questionnaire. Secondary data was gathered from information publications such as articles, thesis and dissertations which were relevant to prepare literature review.

Those data used to get better insight on the research topic, to establish the worthwhile platform for the theoretical framework constituting the bases of the research, and to design the sample frame for getting the primary data. Another advantage of using secondary data was its comparability

character. The researcher used it to validate and compare the data get through questionnaire to existing literature and articles.

### **3.4 Population and Sampling Design**

In research methodology, population refers to any group of people that are the main subject of the research. It is not possible economically and practically to study the whole population (Goddard & Melville, 2007). Thus, target populations of the study were SMEs operating in Addis Ababa, Ethiopia only in the Manufacturing sector. There are 1,032 SMEs licensed for 2022 (MoT). The target population has segmented into 11 groups (sub cities).

To avoid biases in the sampling, researcher follows a procedure that can be divided into two main categories; probability and non-probability samples. In the probability sampling, a sample of the population is selected by random selection. Probability sampling is further divided into several types like simple random sampling, systematic sampling, stratified sampling and cluster sampling (Ghauri, Gronhaug, & Kristianslund, 1995).

Since each cluster group found in one sub-city compared with identical cluster found in other sub-cities has homogenous nature, the probability cluster method was employed. The study grouped the population into cluster. From each cluster the respondents was selected conveniently. The respondents i.e., CEOs/owners and other senior managers were identified based on their position within the SMEs. This is due to the fact that senior managers are assumed to be more knowledgeable and familiar with the issues under investigation.

Based on (Taro Yamane, 1967), sample size determination formula, a grand total sample of 288, at 95 % confidence level and 0.05 precision levels is obtained.

$$n = \frac{N}{1 + N * (e)^2}$$

$$n = \frac{1,032}{1 + 1,032(0.05)^2} = 288.26 \sim 288$$

**Table 3.1 Sampling determination**

No	Sub Cities	Same size	
		Total number of SME	Sample
1.	Lemi kura	61	$[(61/1032) \times 288] = 17$
2.	Lideta	32	$[(32/1032) \times 288] = 9$
3.	Kirkos	141	$[(141/1032) \times 288] = 39$
4.	Bole	197	$[(197/1032) \times 288] = 55$
5.	Nifas silk	168	$[(168/1032) \times 288] = 47$
6.	Arada	68	$[(68/1032) \times 288] = 19$
7.	Akaki kaliti	108	$[(108/1032) \times 288] = 30$
8.	Addis ketema	41	$[(41/1032) \times 288] = 11$
9.	Kolfe keraniyo	79	$[(79/1032) \times 288] = 22$
10.	Yeka	98	$[(98/1032) \times 288] = 27$
11.	Gulele	39	$[(39/1032) \times 288] = 11$
<b>Total</b>		<b>1,032</b>	<b>288</b>

(Source, MoT, 2021)

### 3.5 Measurement of Variables

As mentioned in review literature part of the study earlier internationalization is measured with percentage of sales from international sources, the percentage of profit from international sources. The percentage of sales from international sources and the percentage of profit from international sources are measured using ordinal measures.

The following table indicates measurements of the constructs and the sources from which questionnaires are developed.

**Table 3.2 Measure of variables**

	Variable	Measure	Source
Independent	Internationalization	Question no 10&11	(Chelliah, Sivamurugan, Mohamed, & Jayaraman, 2010)
Dependent	Age of SME	Question no 18	(Ruzzier & Maja , 2015)
	Size of SME	Question no19	(Bonaccorsi, 1992)
	Financial source	Question no 14&15	(Ito, K., & Rose, 2002)
	Attitude of Internationalizations	Question no 25 %26	(Caloff, 1994)
	Internationalization knowledge	Question no 21	(Hadley & Wilson, 2003)
	Year of experience in international knowledge	Question no 23 & 24	(Reuber & Fischer, 1997)

*(Source, own survey, 2021)*

### 3.6 Data Collection Method

Primary data is more relevant for research because it specially collected for the particular project in hand and consistent with research problem. Primary data include the methods like experiment, observation and communication (Ghauri, Gronhaug, & Kristianslund, 1995).

In this study, structured questionnaire used to collect primary data. It is advisable to use structured questionnaire to prevent misconception of the idea of study, while at the same time it is deemed appropriate for descriptive research because it allows the researcher to investigate perception of participants on the variable of study (Cooper & Schindler, 2014).

Secondary data helps the researcher to understand and formulate the research problem more clearly and broaden the base to draw a scientific conclusion. Further, the secondary information is helpful for the international researches because we can easily collect and compare the similar data about two or more different countries. (Ghauri, Gronhaug, & Kristianslund, 1995).

In this study, secondary data used primarily to explain the internationalization process, approaches and theories. Moreover, it is used also to realize the importance of small and medium sized enterprises for the world.

### 3.7 Method of Data Analysis and Presentation

According to (Cooper & Schindler , 2003) regression analysis gives a description of the nature of a relationship between two or more variables; estimates the value of the dependent variable on the basis of one or more independent variable. Regression helps to test the relationship between variables in a study and measure the strength of this relationship.

### 3.8 Specification of the Research Model

The researcher examined internationalization of SMEs in Addis Ababa city using linear regression models. Multiple regressions show how much the dependent variance can be defined by independent variables. It also indicates the relative importance of each independent variable. The independent variables are age of SME, size of SME, financial resource, attitude to internationalization, internationalization knowledge. Accordingly, the multiple regression model equation is:

$$\text{Model as } I = \beta_0 + \beta_1 AS + \beta_2 SS + \beta_3 FR + \beta_4 AI + \beta_5 IK + \beta_6 EI + \varepsilon$$

Where: I = Internationalization

$\beta_0$  = Constant

$\beta_1$  to  $\beta_3$  = Slope

AS = Age of SME

SS = Size of SME

FR = Financial Resources

AI = Attitude to Internationalization

IK= Internationalization Knowledge

EI = Experience on International business

$\varepsilon$  = Standard Error

### 3.9 Validity and Reliability

The use of reliability and validity are common in quantitative research and now it is reconsidered in the qualitative research paradigm (Golafshani, 2003). Reliability was assessed using Cronbach's  $\alpha$ ; it is the most commonly used test to determine the internal consistency of an instrument.

Cronbach alpha coefficients were computed for each of the variables being assessed by the instrument. Cronbach Alpha Coefficients for each of the SME internationalization variables of this study were, 0.866 for age of SME, 0.856 for size of SME, 0.46 financial resources, 0.898 for manager's attitude towards Internationalization, 8.94 for manager's internationalization knowledge and .895 for international experience of manager. Each coefficient was statistically significant and very satisfactory compared to normal standards of reliability (i.e. 0.7).

**Table 3.3-Reliability test**

<b>Determinant of internationalization</b>	<b>Cornbrash's Alpha</b>
Age of SME	.886
Size of SME	.856
Financial resource	.846
Manager's attitude towards Internationalization	.898
manager's internationalization knowledge	.894
International experience of manager	.895
Reliability static of total scale	.899

*(Source, own survey, 2021)*

### 3.10 Ethical Considerations

Earlier the research was commenced; the researcher let the participants to know about the objectives of the study, and respecting the privacy, and protecting the anonymity of all respondents. A researcher must consider these points because the law of ethics on research condemns conducting a research without the consensus of the respondents.

# CHAPTER FOUR

## Data Analysis and Interpretation

### 4.1 Introduction

This chapter includes the data presentation, analysis and interpretation of the findings. The analysis starts with a description of the respondents demographic profiles. The total sample of the study was 288 out these, 223 were returned and 6 were rejected because of poor data quality. 217 questionnaires were valid with sufficient amount of response rate of 75.3%.

**Table 4.1 Response rate**

Response rate	Frequency	Percentage
complete	217	75.3
Incomplete	6	24.7
Total	223	100

*(Source: Own Survey, 2021)*

### 4.2 Survey Results

The survey was conducted with 217 respondents representing 75 percent of the sample size. The purpose of this section is to present the results of the survey on respondents' profile and responses of survey participants on aspects of internationalization.

#### 4.2.1 Internationalization of SMEs

**Table 4.2. SMEs engaged in international business**

SMEs engage in international business	Frequency	Percent
Yes	61	28.1
Valid No	156	71.9
Total	217	100.0

*(Source: Own Survey, 2021)*

Table 4.2 indicate that out of the 217 total respondents, 61 (28.1%) were internationalized while the remaining 156 (71.9%) did not internationalized.

#### 4.2.2 Demographic Composition of Respondents

It is necessary to analyze the demographic profile of the respondents to validate reliability of data collected. Accordingly, the respondents were asked to respond to their year of experience, level of education and field of qualification.

**Table 4.3. Demographic composition of respondents**

Category	Frequency	Percent
<b>Positions in SME</b>		
CEO and Owner	58	26.7
CEO	41	18.9
Sales head	54	24.9
International (Export) business Head	46	21.2
Any other senior position	18	8.3
<b>Educational Qualification</b>		
Post graduate	33	15.2
Degree	140	64.5
Diploma	44	20.3
Total	217	100.0
<b>Experience in I. N Business</b>		
less than 5 years	123	56.7
5-10	72	33.2
11-15	22	10.1
Total	217	100

*(Source: Own Survey, 2021)*

As indicated in the above table in terms of respondent's position 58 (26.7%) were CEO and Owner of the SME and 41(18.9%) of the respondents were only CEO. Sales head shares 54 (24.9%) of the respondents. International (export) business head and other senior positions have 46(21.2%) and 18(4.3%), respectively. This is an indication that the respondents are at adequate position level to understand the concept of internationalization.

In terms of respondents educational background, 33 (15.2%) were post graduate holders; and degree & diploma holders have 140 (64.5%) and 44 (20.5%), respectively. These show that the small and medium enterprises employees at senior management level have skilled man power.

With respect to experience in international business 123 (56.7%) have less than 5 years' experience. The remaining 72 (33.2%) and 22 (10.1%) have 5-10 years and 11-15 years' experience, respectively. These indicates that majority of the respondents have no more than five years' experience in international business.

#### **4.2.3 Interpretation of Results**

This section discusses the results of the survey in respect of internationalization of SMEs and age of SME, size of SME, financial resource, and attitude to internationalization, international knowledge and year of experience in international business.

**Table 4.4. Mean construct**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Age of SME	217	1	2	1.47	.500
Size of SME	217	1	4	2.59	.929
Financial Resource	217	1	4	3.05	1.040
Attitude of managers on internationalization	217	1	3	1.58	.900
Managers Internationalization knowledge	217	1	2	1.76	.425
International experience of managers	217	1	4	3.43	1.108
Valid N (listwise)	217				

*(Source: Own Survey, 2021)*

Table 4.4 indicates that the mean and standard deviation of determinates on internationalization of SME. According to the result, managers year of experience on internationalization and financial resource have a mean value of 3.43 (SD 1.108) and 3.05 (SD1.040), respectively. This implies that year of managers experience and financial resources are main determinant factor on internationalization of SMEs. On the other hand, size of SME with mean score of 2.59 (SD 0.929) and international knowledge, attitude and age of SME have the least mean with value of 1.76 (SD 0.425), 1.58 (SD 0.09) and 1.47 (SD 0.500), respectively. This indicates, the later four variables are not critical determinant factor on SME internationalization.

**Table 4.5. Correlations**

		Correlations						
		I	AS	SS	FR	AI	IK	YE
I	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	217						
AS	Pearson Correlation	.537**	1					
	Sig. (2-tailed)	.000						
	N	217	217					
SS	Pearson Correlation	.648**	.871**	1				
	Sig. (2-tailed)	.000	.000					
	N	217	217	217				
FR	Pearson Correlation	.885**	.830**	.849**	1			
	Sig. (2-tailed)	.000	.000	.000				
	N	217	217	217	217			
AI	Pearson Correlation	.366**	.681**	.801**	.590**	1		
	Sig. (2-tailed)	.000	.000	.000	.000			
	N	217	217	217	217	217		
IK	Pearson Correlation	.920**	.522**	.578**	.810**	.356**	1	
	Sig. (2-tailed)	.000	.000	.000	.000	.000		
	N	217	217	217	217	217	217	
YE	Pearson Correlation	.947**	.483**	.585**	.806**	.329**	.925**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	
	N	217	217	217	217	217	217	217

\*\* . Correlation is significant at the 0.01 level (2-tailed).

*(Source: Own Survey, 2021)*

Table 4.5 above table illustrated the correlation between SME internationalization, age of SME, size of SME, financial resource of SME, attitude towards internationalization, internationalization knowledge, and experience in international business. The strongest relationship is with year of experience (r=0.947), followed by knowledge in international business and financial resource (r=0.920) and (0.885), respectively. The weakest correlations are size of SME, age of SME and attitude to internationalization (r=0.0366), (0.537) and (0.0648), respectively. Altogether, the relationship between the independent variables and internationalization of SMEs was positive and significant at 1% significance level.

### 4.3 Classical Linear Regression Assumptions Tests

#### 4.3.1 Multicollinearity Test

According to (Pallant, 2007), there is no formal way in the logistic regression procedure of SPSS to test multicollinearity. But, she suggested that we can use the procedure of linear regression and focus only colinearity statistics which contain tolerance value and variance inflation factor (VIF). Tolerance value that are very low (less than .1) indicates that the variable has high correlation with other variables in the model (Pallant, 2007).

The VIF measures how much the variance of an estimated regression coefficient increases if your predictors are correlated (Ringle, 2015). More variation is bad; we're looking for precise estimates. If the variance of the coefficients increases, our model isn't going to be as reliable. Some papers argue that a VIF less than 10 is acceptable (Hair et al., 1995), but others say that the limit value is 5 (Ringle, 2015).

In this study the correlation coefficient between independent variables (AS, SS, FR, AI, KI and YE) not more than 0.9 and all of the independent variables had a tolerance of more than 0.1 and a VIF value of less than 10. Hence, the assumption of Multicollinearity meet as it is indicated in table 4.6 below.

**Table 4.6. Collinearity diagnosis**

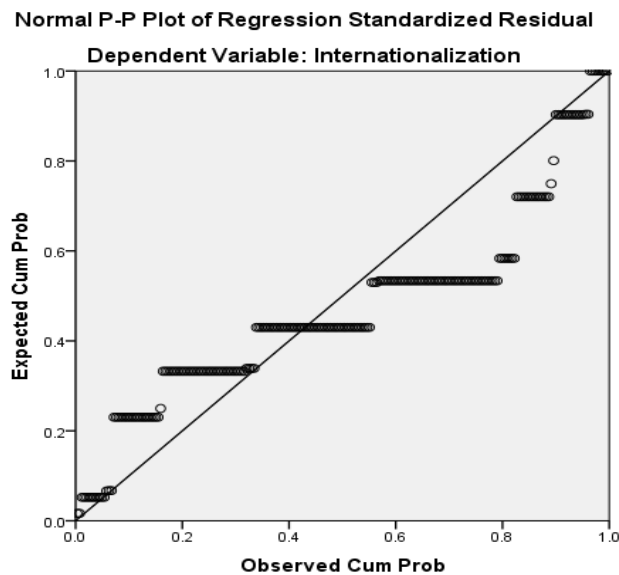
Model	Collinearity Statistics		
	Tolerance	VIF	
1	AS	.160	6.266
	SS	.211	9.008
	FR	.283	9.013
	AI	.319	3.139
	IK	.226	7.936
	YE	.361	8.985

*(Source: Own Survey, 2021)*

### 4.3.2 Linearity Test

As it is shown in the figure 4.1 below, the P-P plot of residuals discloses no large deviation in the spread of the residuals that almost all residuals lay on the linear straight line. Hence, this specifies that the relationship between the independent variables and the dependent variable is linear.

**Figure 4.1: Test of linearity**

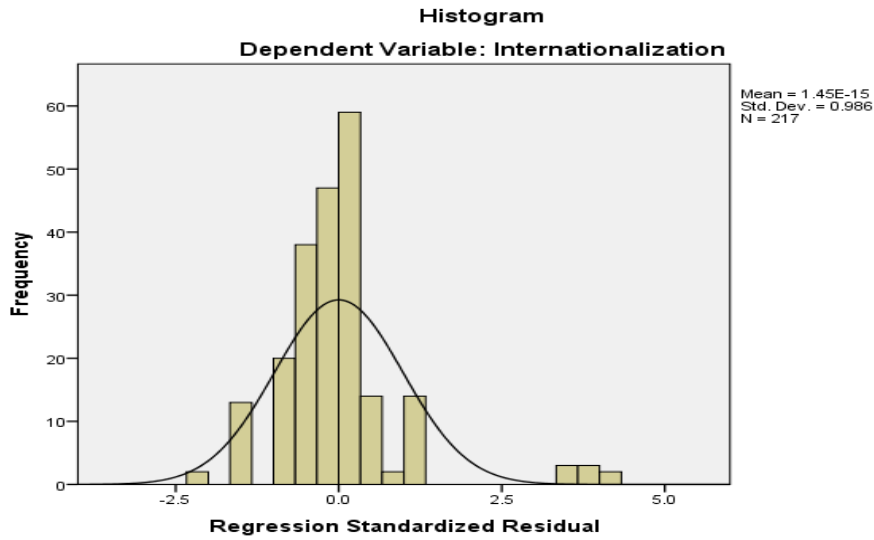


*(Source: Own survey, 2021)*

### 4.3.3 Normality Test

Normality Tests of residuals as depicted in figure below, the bell shaped histogram shows that scores falls in the center of the distribution. The standard residuals are not far away from normality curve that indicate residuals are closer to normality curve.

**Figure 4.2: Normality Tests of Residuals**

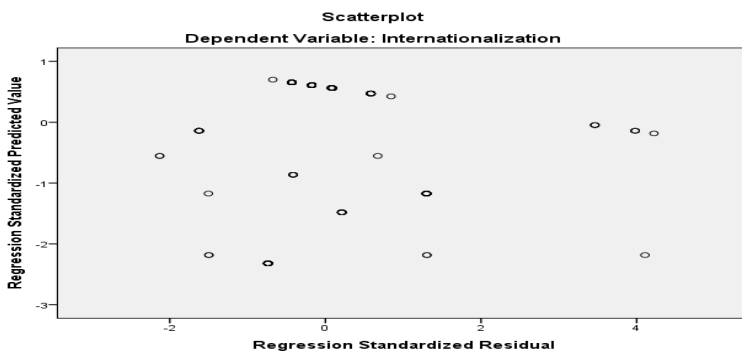


*(Source: Own survey, 2021)*

#### 4.3.4 Homoscedasticity Test

Homoscedasticity is the variance of the residuals about predicted dependent variable scores should be the same for all predicted scores. That means the test was conducted to see a situation in which the error term is the same across all values of the independent variables. Therefore the assumption of homoscedasticity is not violated as seen below figure.

**Figure 4.3: Scatter plot for testing homoscedasticity**



*(Source: Own survey, 2021)*

## 4.4 Regression Analysis

Regression analysis is concerned with measuring and explaining the relationship between a given variable and one or more other variables. The purpose of regression analysis is to understand the relationship between variables and predict the value of one variable based on another variable. This is also indicated in the model summary below where the statistical relationship of the dependent and independent variables is shown, that is between the independent variables: SMEs characteristics and Managers characteristics one hand and the dependent variable internationalization on the other.

**Table 4.7. Model summary table**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.985 <sup>a</sup>	.969	.968	.17842
a. Predictors: (Constant), Year of experience, Attitude, Age of SME, International knowledge, Size of SME, Financial Resource				

*(Source: Own Survey, 2021)*

The R value in the above table 4.7 shows the quality of the prediction of the dependent variable. The value 0.985 indicates a good level of prediction.

Moreover, R-squared evaluates the scatter of the data points around the fitted regression line. The value 0.969 shows that the independent variables explain 96.9% of the variability of internationalization was explained by independent variables included in the model. The remaining 3.1% of the variations shown are caused by factors other than the predictors included in the model.

Besides, adjusted R square is another important factor to accurately report the data interpretation. Hence, adjusted R square with a value of 0.968% indicates that 96.8% of variation in the outcome variable is explained by the predictors which are to keep in the model. The standard error is at the end, to measure the precision of the model and how precise an estimate of the

population parameter the sample statistic is the standard error is important. The estimates of internationalization with this model will be wrong on average by 0.17842.

**Table 4.8. ANOVA fit**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	211.458	6	35.243	1107.086	.000 <sup>b</sup>
	Residual	6.685	210	.032		
	Total	218.143	216			
a. Dependent Variable: Internationalization						
b. Predictors: (Constant), Year of experience, Attitude, Age of SME, International knowledge, Size of SME, Financial Resource						

*(Source: Own Survey, 2021)*

Analysis of variance indicated that the variance of the variables that the researcher established, the F ratio,  $F(6, 210) = 1107.086$ ,  $P < 0.000$ ) was statistically significant at 1% level of significance. This showed age of SME, size of SME, financial resource, attitude, international knowledge and years of experience in international knowledge statistically significantly influence internationalization of SMEs.

**Table 4.9. Regression coefficients of the variables**

Coefficients <sup>a</sup>						
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	.414	.064		6.505	.000
	Age of SME	-.738	.061	-.368	-12.155	.000
	Size of SME	.136	.039	.125	3.456	.001
	Financial resource	.695	.040	.719	17.178	.000
	Attitude	.091	.024	.081	3.796	.000
	International knowledge	.410	.080	.173	5.093	.000
	Years of experience	.306	.033	.337	9.314	.000

a. Dependent Variable: Internationalization

(Source: Own Survey, 2021)

The above table indicated that the except age of SME the independent variables (size of SME, financial resource, attitude, international knowledge and years of experience in international knowledge) have positive and statistically significant effect on the international of SMEs at 5% level of significance.

The standardize value of Beta Coefficient in table 4.9 indicates, the effect of each predictor on dependent variable. Accordingly, if the p-value is less than 5%, the test will be significant. It used to determine which independent variables have the most influence on the dependent variable. Hence, Beta coefficient for financial resource is 71.9% followed experience in international business with a value of 33.7% and international knowledge in international business with value of 17.3%.

On the other hand, unstandardized coefficients indicate how much the dependent variable varies with an independent variable when all other independent variables become constant. The regression coefficient runs the expected change in the dependent variable for an increment of a unit in the independent variable. Accordingly, the beta coefficients indicated on table 4.9 in the regression are interpreted as follows:

- Constant value 0.414 indicates that all other independent variables (age of SME, size of SME, financial resource, attitude, international knowledge and years of experience in international knowledge) remaining constant the dependent variable (Internationalization) has a rate of 41.4 % of internationalization.
- The beta coefficient value age of SME has ( $\beta = -0.738$ ,  $p < 0.05$ ), indicates keeping other independent variables constant, 1 unit change in age of SME will cause 73.8% negative decrease in internationalization.

**Hence, the alternative hypothesis (H1) that age of SME has positive relationship with internationalization business was rejected.**

- The beta coefficient value of size of SME ( $\beta = 0.136$ ,  $p < 0.05$ ) and statistically significant, shows that keeping other independent variables constant, 1 unit change in size of SMEs 13.6% increment in internationalization of SMEs.

**Accordingly, the alternative hypothesis (H2) that size of SME has positive relationship with internationalization of SMEs.**

- The beta coefficient value of financial resource ( $\beta = 0.695$ ,  $p < 0.05$ ) statistically significant indicates that by keeping other independent variables constant, 1 unit change financial resource will cause 69.5% increase in internationalization of SMEs.

**Hence, the alternative hypothesis (H3) that financial resource has positive relationship with internationalization of SMEs.**

- The beta coefficient value of attitude to internationalization ( $\beta = 0.091$ ,  $p < 0.05$ ) statistically significant indicates that by keeping other independent variables constant, 1 unit change in attitude will cause 9.1% increase in internationalization of SMEs.

**Hence, the alternative hypothesis (H4) that attitude towards internationalization has positive relationship with internationalization of SMEs.**

- The beta coefficient value of knowledge in internationalization ( $\beta = 0.410$ ,  $p < 0.05$ ) statistically significant indicates that by keeping other independent variables constant, 1 unit change in internationalization knowledge will cause 41% increase in internationalization.

**Hence, the alternative hypothesis (H5) that internationalization knowledge has positive relationship with internationalization of SMEs.**

- The beta coefficient value of years of experience in international knowledge ( $\beta = 0.306$ ,  $p < 0.05$ ) statistically significant indicates that by keeping other independent variables constant, 1 unit change in experience in internationalization of SME will cause 30.6% increase in internationalization.

**Hence, the alternative hypothesis (H6) that experience in internationalization has positive relationship with internationalization of SMEs.**

**Table 4.10. Summary of hypothesis**

	<b>Hypothesis</b>	<b>Result</b>
Ha1.	The effect of age of SME is significant on internationalization of SME	<b>Reject</b>
Ha2.	The effect of size of SME is significant on internationalization of SME	<b>Accept</b>
Ha3.	The effect of financial resources is significant on internationalization of SME.	<b>Accept</b>
Ha4.	The effect of management attitude is significant on internationalization SME.	<b>Accept</b>
Ha5.	The effect of the level of manager's internationalization knowledge is significant on internationalization of SME.	<b>Accept</b>
Ha6.	The effect of international experience of the manager is significant on SME internationalization of SME.	<b>Accept</b>

*(Source: Own Survey, 2021)*

## **4.5 Discussions**

### **Age of SME**

The traditional internationalization theories such as the Uppsala, propose that the firm has to go through various stages before it becomes fully internationalized. The conclusion would be that the older the firm the more it is able to internationalize. However, with the knowledge that some firms are 'born-global' and those others by pass several stages in the traditional model, and then there seems to be no positive relationship between the age and ability of the SME to internationalize (Chelliah, Sivamurugan, Mohamed, & Jayaraman, 2010).

As per survey of this study age of SME has ( $\beta = -0.738$ ,  $p < 0.05$ ) effect on internationalization of SME. Therefore, this result seems to support 'born-global' with the conclusion that there

seems to be no positive relationship between the age and ability of the SME to internationalize (Chelliah, Sivamurugan, Mohamed, & Jayaraman, 2010).

### **Size of SME**

Study conducted by (Reid, 1985) found a positive relationship between firm size and exporting activity. Moreover, (Caloff, 1994) examined the direct and indirect effects of firm size on export behavior; and the results showed that firm size is positively related to all dimensions of export behavior (Caloff, 1994). Thus, this study also supports the size of SME has positive effect on internationalization of SMEs ( $\beta=0.136$ ,  $P < 0.05$ ).

### **Financial Resources**

Moreover, the study also indicates that the positive effect financial resource on internationalization of SMEs ( $\beta=0.695$ ,  $P < 0.05$ ). This outcome agrees with (Talebi, Tajeddin, Rastgar, & Emami, 2017) revealed that financial resources have positive significant effect on SMEs internationalization. (Pattnaik & Elango, 2009) found a positive relation between firm financial resources on internationalization and performance relationship. Consequently, (Wamono, Kikabi, & Mugisha, 2012) and (Junaidu, et al., 2012) revealed that firm financial resources positively enhance export performance of SMEs.

### **Managers' Attitude toward Internationalization**

A positive attitude toward exporting was related to the export performance in manufacturing firms (Axinn, 1988). Accordingly, manager's attitude towards internationalization have a positive relationship with internationalization of SMEs ( $\beta=0.091$ ,  $P < 0.05$ ).

### **Manager's Internationalization Knowledge**

( $\beta=0.410$ ,  $P < 0.05$ ). The outcome of this agrees with the study of (Hadley & Wilson, 2003) that confirmed internationalization knowledge was related to the firm's internationalization.

### **Manager's Internationalization Experience**

Finally, the study indicates that experience in international business has a positive effect on internationalization of SMEs ( $\beta=0.306$ ,  $P < 0.05$ ). This result is similar with the finding of (Athanassiou & Nigh, 2002) that a positive relationship between the top management team's international experience and the extent of firms' internationalization.

## CHAPTER FIVE

### Summary of Findings, Conclusion and Recommendations

#### 5.1 Summary of Findings

The demographic profile of total respondents in terms of position shows 58 (26.7%) were CEO and owner of the SME and 41(18.9%) of the respondents were only CEO. Sales head shares 54 (24.9%) of the respondents. International (export) business head and other senior positions have 46(21.2%) and 18(4.3%), respectively. In terms of respondents educational background, 33 (15.2%) were post graduate holders; and degree & diploma holders have 140 (64.5%) and 44 (20.5%), respectively. With respect to experience in international business 123 (56.7%) have less than 5 years' experience. The remaining 72 (33.2%) and 22 (10.1%) have 5-10 years and 11-15 years' experience, respectively.

Under the study six independent variables (age of SME, size of SME, financial resource, attitude, international knowledge and years of experience in international business) were included. The analysis was done using statistical software SPSS using tools. Moreover, descriptive statistics and multivariable regression analysis method used to assess the cause and effect relationship between variables. To this end, to determine the relationship between independent variables and dependent variables, person correlation method was used.

Managers year of experience on internationalization and financial resource have a mean value of 3.43 (SD 1.108) and 3.05 (SD1.040), respectively. This implies that year of managers experience and financial resources are main determinant factor on internationalization of SMEs. On the other hand, size of SME with mean score of 2.59 (SD 0.929) and international knowledge, attitude and age of SME have the least mean with value of 1.76 (SD 0.425), 1.58 (SD 0.09) and 1.47 (SD 0.500), respectively. This indicates, the later four variables are not critical determinant factor on SME internationalization.

The correlation between SME internationalization, age of SME, size of SME, financial resource of SME, attitude towards internationalization, internationalization knowledge, and experience in

international business. The strongest relationship is with year of experience ( $r=0.947$ ), followed by knowledge in international business and financial resource ( $r=0.920$ ) and ( $0.885$ ), respectively. The weakest correlations are size of SME, age of SME and attitude to internationalization ( $r=0.0.366$ ), ( $0.537$ ) and ( $0.0.648$ ), respectively. Altogether, the relationship between the independent variables and internationalization of SMEs was positive and significant at 1% significance level.

Except age of SME the independent variables (size of SME, financial resource, attitude, international knowledge and years of experience in international knowledge) have positive and statistically significant effect on the international of SMEs at 5% level of significance.

## **5.2 Conclusion**

This research was conducted with main purpose critically explore determinant factors on internationalization of SMEs that engaged in manufacturing sector in Addis Ababa, Ethiopia. Accordingly, as a theoretical contribution, this study assumed the effects of age of SME, size of SME, financial resource, manager's attitude towards internationalization, international knowledge and years of experience in international business on internationalization of SME. Based on the objectives and findings of the study, the following conclusions are drawn.

- SME internationalization is positively influenced by size of SME, financial resources, manager's internationalization knowledge, and the fourth (Management attitude) hypotheses and manager's international experience.
- Out of the six determinants on internationalization of SMEs, the key finding of this study rejected the first (age of SME).

### **5.3 Recommendations**

In line with the above findings and conclusion the following recommendations were forwarded.

- Trainings; providing of different trainings in the field of management, marketing, sales skills, international trade as well as preparing and inviting of senior managers on seminars and workshops on internationalization well enhances internationalization of SMEs.
- SME financing; internationalization requires financial resources in forms, for export credit guarantees, pre-shipment financing, and working capital augmenting facilities. Government and other stockholders should facilitate the financing of these activities through bank, microfinance loans and other possible sources.

### **5.4 Further Research Direction**

The researcher faced difficulty during data collection in obtaining of formal and well documented and data. Besides, the study had limited time and financial resources to cover a larger participant sample size and a larger geographical area. Hence, it was limited to exploring determinants on internationalization of only small and medium sized manufacturing enterprises found in Addis Ababa city Administration.

Therefore, further research involving a larger participant sample size from a larger geographical area and across other different sectors is recommended.

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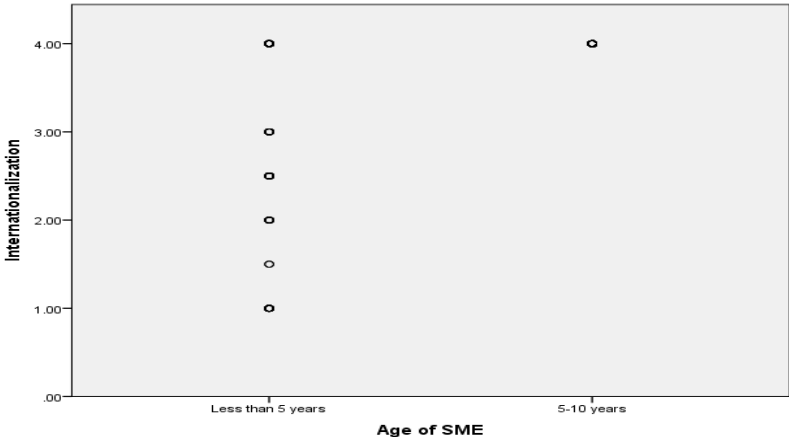
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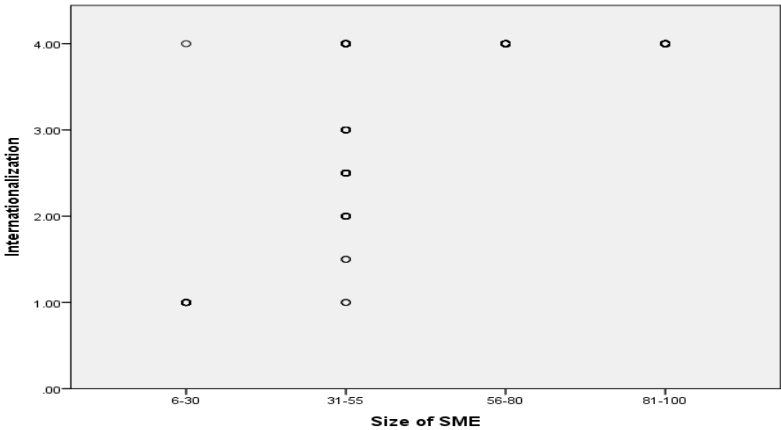
**APPENDICES**

**Heteroscedasticity diagnosis**

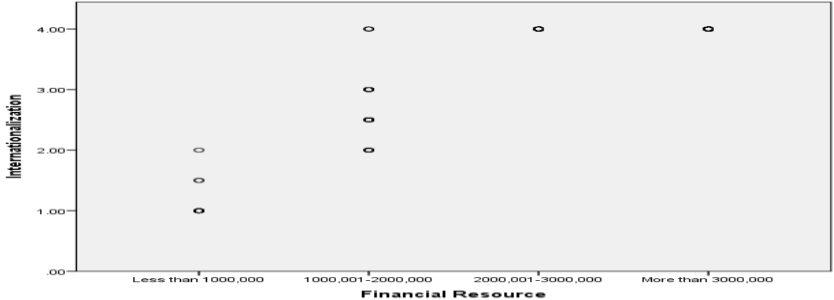
Internationalization vs Age of SME



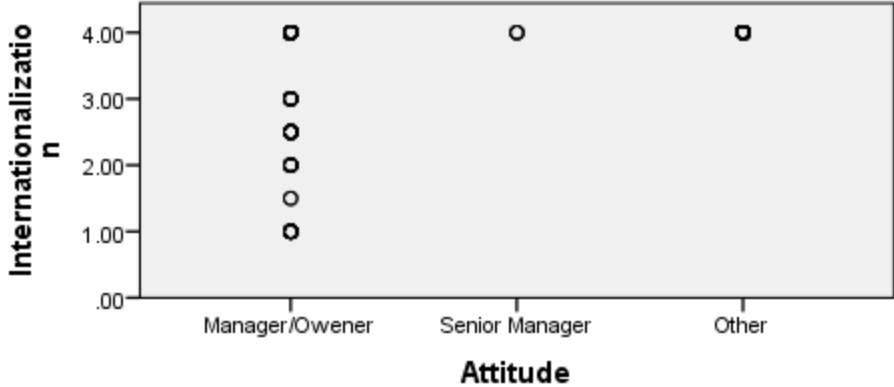
Internationalization Vs size of SME



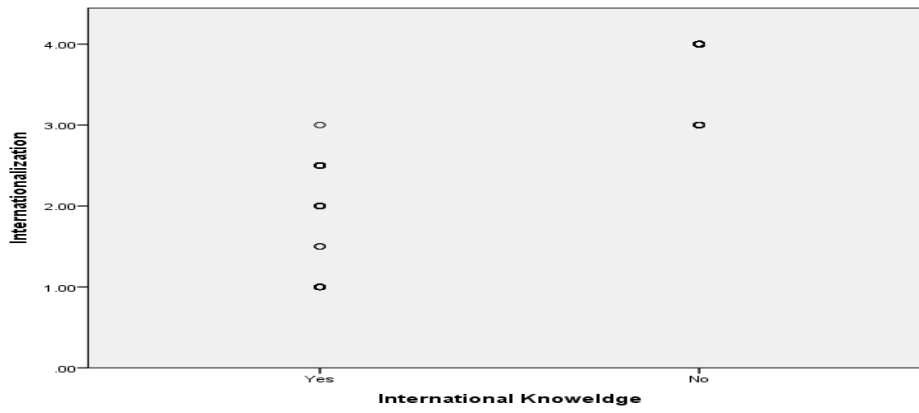
Internationalization vs financial resource



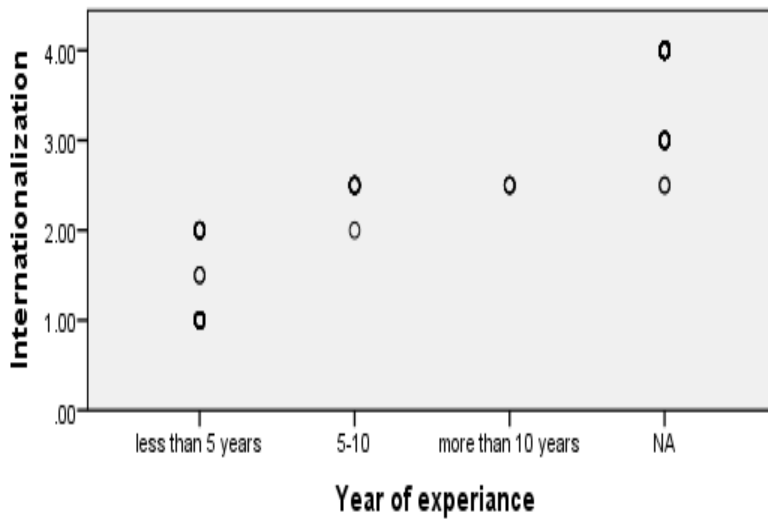
Internationalization vs managers attitude



Internationalization vs internationalization knowledge



Internationalization vs year of experience



**ADDIS ABABA UNIVERSITY**

**COLLAGE OF BUSINESS AND ECONOMICS DEPARTMENT OF MANAGEMENT**

Research Questionnaire

Dear Respondents,

My name is Hassen Awel and i am a graduate student at Addis Ababa University Department of Management. Currently, I am conducting a research on **Internationalization of Small and Medium Enterprises**; and hence, you are cordially invited to participate in the study.

I respectfully ask you to complete the questionnaire and be assured that the data will be kept confidential and no firm, organization or individual will be identified in the thesis or in any report or publication unless it is in anonymity.

Thank you very much for your time and cooperation!

**Section 1: Information about your firm:**

- 1. Name of Organization (optional).....
- 2. Location of Business.....
- 3. Main Line of Business.....
- 4. Which products is your business selling abroad.....
- 5. Which of these describes the ownership structure of your business ( tick on the box)  
 Individual ownership    Group ownership   others (specify).....

**Section 2: Information about Internationalization:**

- 1. Do you engage in international business?  
 Yes                                       No
- 2. If your answer for question number 6 is No. Why not? .....  
.....  
If your answer for question number 6 is yes answer from question number 8 to 13 accordingly.
- 3. What is the number of years your business has engaged in international business?  
 <5 years     6-10 years     11-20 years     11-20
- 4. How much is the annual revenue of the company obtained from Internationalization in latest F.Y?  
 ≤\$5, 000     \$6000-10,000     \$11,000-20, 000     >\$20,000
- 5. What is the percentage of sale from International Market in latest F.Y?  
 ≤10 %     \$11-20%     \$21-40 %     >\$41-50%     >51%
- 6. What is the percentage of profit from international market in latest F.Y?  
  
 ≤10 %     \$11-20%     \$21-40 %     >\$41-50%     >51%
- 7. Which Geographical market your company exports?

Africa N. America Asia Europe

8. Total number of countries that your company exports;

>6  6-10  11-15  16-20  >20

Other (please specify) \_\_\_\_\_

9. Does your company have any other financial source in addition to its own profit (capital)?

Yes

No

10. If your answer for question number 12 is yes, what amount of loans is obtained on average yearly?

less than 1000,000  1000001-2000000  2000001-3000,000

more than 3000,000

11. Please describe your current position in the company

CEO/ Owner  Manager  Sales Manager

Head of International (export) Business  Other (please specify) \_\_\_\_\_

12. Educational qualification

Certificate  Diploma  Degree  Post Graduate

Other (please specify) \_\_\_\_\_

13. When was your company established?

≤ 5 years ago  6-10 years  11-20years  more than 21 years

14. How many employees does your company currently have?

6-30  31 -55  56-80  81-100

15. If your answer for question number 12 is yes, what amount of loans is obtained on average yearly?

less than 1000,000       1000001-2000000       2000001-3000,000

more than 3000,000

16. Please describe your current position in the company

CEO/ Owner       Manager       Sales Manager

Head of International (export) Business       Other (please specify) \_\_\_\_\_

17. Educational qualification

Certificate     Diploma     Degree     Post Graduate

Other (please specify) \_\_\_\_\_

18. When was your company established?

≤ 5 years ago     6-10 years     11-20years     more than 21 years

19. How many employees does your company currently have?

6-30       31 -55       56-80       81-100

20. What is the total capital of your company?

Birr 100,001-1,500,000       Birr 1,500,001-5,000,000

Birr 5,000,001-10,000,000       Birr 10,000,001-20,000,000

21. Have you ever attended to / completed vocational courses, seminars, workshops, trainings in the field of the management, marketing, sales skills, international trade etc.?

- Yes                       No

22. Is the current company actually the first company in which you work?

- Yes                       No

23. Do you have any previous experience in establishing and maintaining international business relations or networks?

- Yes                       No

24. If your answer is “yes” for question number 23, how many years?

- 5       5-10       10-15       15-20       >20

25. Do you think that doing business internationally provides an important opportunity for growing your firm? If no, why not?

.....  
.....

26. If your company is internationalized, who makes the decision or initiate first for internationalization of your company?

.....  
.....

27. Do you think that doing your business only in domestic market is better than doing internationally? If yes, how?

.....  
.....