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Factors influencing the Internationalization of Firms: Case of Addis Ababa City Exporters

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Abstract

The study aims at identifying factors influencing internationalization and their relation with improved international business performance of export firms found in Addis Ababa city. Explanatory research design was used and data collected through primary source using questionnaire. 287 respondents were participated in the survey based on simple random sampling method of sample selection by using mathematical formula. In order to test the reliability of the instrument, the Cronbanch alpha test was used. Pearson correlation and multiple linear regression analysis were employed to estimate the causal relationships between dependent and independent variables.Finally, the responses of the respondents were analyzed using descriptive Statistics, correlation,andregression through computer loaded SPSS software. The empirical results showed that host countries high market potential, reputation of the company's in the industry and increased value and number of employees were motivating factors for deciding internationalization of Ethiopian export firms. The effects of all predictors were statistically strong positive and significant effect on improved international business performance. The overall finding of this study suggests that firm size, competitive advantages and market characteristics had statistically strong positive and significant effect on improved international business performance. On this basis, it is recommended that export firms shall increase the value and number of employees and shall concentrate on host countries that have high market potential while deciding presence on international business activity. Moreover, export firms shall increase reputation of their companies in the industry; possession of unique proprietary technology shall be increased and should focus on host countries that have complementary and receptive organizational structures, processes and administrative conveniences while making foreign entry decisions**.**

Keywords: Internationalization, Firm Size, Competitive Advantage, Market characteristics

Introduction

Internationalization is defined as a multistage process in which the firms make the incremental efforts to strengthen their market involvement and gradually obtain commitments from foreign consumers (Johanson and Vahlne 1977). There are two incremental channels for the internationalization process of the firms (Contractor et al. 2003; Johanson and Vahlne 1977; Westhead et al. 2001). The first channel involves internationalization enabling the products and services of the firms to penetrate foreign markets by starting to export to an individual foreign country or establish export channels. The second channel involves new internationalized firms that are beginning to expand their operations abroad, such as developing sale subsidiaries and outsourcing their production to the favorable locations in the host countries (Westhead et al. 2001). However, export activities are the main focus of most internationalized firms from developing countries to address the problem of an insufficient domestic market because they offer the best option to develop the market nature and size with the smallest associated cost (Contractor et al. 2003).

Regardless of which internationalization strategies that the firms choose to implement, it is widely accepted that they always start with developing the market knowledge and exploration (Contractor et al. 2003). After this, the firms will make decisions about whether they should export or not. It is undeniable that an increase in market knowledge will not only stimulate or discourage firms' decisions to internationalize but also is the key in determining the success of almost all internationalized firms once they decide to participate in the global market (Chen & Hsu 2010). Indeed, the internationalization process is often implemented incrementally along with the increasing market knowledge.

According to many researchers the factors that influence internationalization of firms are firm specific factor of firm size and the location specific factor of market characteristics (Javalgi et al;

2003, manager's international orientation, industry structure, international network and foreign market potential (Rutihinda, 2011). Firm's reputation, employee competencies and ability and the firms experience are factors that affect internationalization (Kanyagia, 2019).

There have been some studies on factors influencing internationalization of firms in Ethiopia (e.g., Yehualashet, 2015; Negussu, 2020; Alubel, 2017)however, the empirical evidence and contribution to theory on this topic is still lacking. For instance, Yehualashet (2015) contribute to the empirical evidence, his study has not identified specific theory of internationalization.In the meantime, researchers have argued that the Internationalization process crosses diverse theories (Morgan and Katsikeas, 1997; Welch and Luostarinen, 1988), but it is still inconclusive (Crick and Barr, 2007; Etemad, 2004; Han, 2007). Therefore, an integrated view of firm internationalization theories is recommended (Jones and Coviello, 2005).

Thus, this study explores the factors affecting the internationalization of export firms found in Addis Ababa City through the lens of Dunning's eclectic theory conceptualized as a tool that combines insights from resource-based (firmspecific), institutional (location), and transaction cost (internalization) theories (Brouthers and Hennart, 2007). Thus, the framework consist the firm-specific factors of firm size and competitive advantage as well as, the location-specific factor of market characteristics to assess international business performance (Javalgi et al., 2003).

Method

Research Approach

The study adopted quantitative approach. Quantitative method is a means for testing objective theories by examining the relationship among variables. Data collected is number and statistics (Creswell, 2003).The study adopted quantitative approach.A qualitative research approach uses strategies inquiry including narratives, ethnographies, case studies, observations, interviews, and the results are communicated subjectively through descriptions using words rather than numbers (Creswell, 2003).

Research Design

The choice of research design depends on objectives that the researcher wants to achieve (John, 2007). As can be seen from the research problem it is more of explanatory type and tries to identify factors that influence the internationalization of export firms found in Addis Ababa City. As noted by Kothari (2004), explanatory research design examines the cause and effect relationships between dependent and independent variables. Therefore, since the study was examined to identify factors that influence the internationalization of export firms, it is an explanatory research.

Sources of Data and Instruments of Data Collection

The type of data collection method is a great value to interpret them properly. For possible achievement of the objective of the paper the researcher used primary data. The primary data was gathered from the owner, general manager of the company, import & export manager and trade officers from randomly selected companies. The types of instruments used to collect the data were through close ended questionnaire. The format of the questionnaire for independent variables were 5 point scale from strongly agree to strongly disagree to categorize the respondents level of agreement.

Sampling Technique and Population

The target population of the study was companies who are involved in international business found in Addis Ababa City. The total number of the target population was 1641.According to Diamantopoulos (2004), a population is a group of items that a sample will be drawn from. A sample, on the other hand, refers to a set of individuals/companies/ selected from an identified population with the intent of generalizing the findings to the entire population.The sampling technique applied for the study was probability sampling (simple random sampling) for selecting export companies and non-probability sampling (Purposive Sampling) for selecting respondents.

Considering the total population of the study, the sample size of the study was determined using Taro Yamane's a simplified formula. As stated by Yamane for a 95% confidence level and p=0.5 the size of the sample would be:

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

Where, N = Total Population e = Precision Level
n = Sample Size, Where confidence level is 95%.

$$\text{Sample size} = \frac{1{,}641}{1+1{,}641(5\%)^2} = 322 \text{ Observations}$$

Analysis of Data

In order to drawn meaningful conclusion, analyses were conducted through a descriptive statistics to describe the phenomenon that exists at the time of the study in the form of frequency distribution, standard deviation, and mean calculation.

Additionally, the study was used the multivariable regression analysis method to assess the cause and effect relationship between variables. The Pearson correlation method was used to know the relationship between independent variables and dependent variables. To change the collected data into useful information the analysis was helped by a statistical package for social science (SPSS version 24).

Findings

The findings from the descriptive statisics and inferential statiscis are discussed below.

Table 1

Descriptive stats for Firm Size

Variables	**Mean**	**Standard Deviation**
Firm Size		
Increase in the value and number of employee encourages the decision to expand to other countries	2.29	1.062
The level of technological advancement influences international exposure of my company	4.20	1.017
The higher my company's working capital, the higher the willingness to expand to foreign countries	3.20	1.345
High market potential influences international presence	4.25	1.038

The above table shows the descriptive analysis (mean and standard deviation) of the respondents' level of agreement on the variable 'firms size'. The statement 'High market potential influences international presence' had the highest mean and S.D of 4.25 and 1.03 respectively, indicatingrespondents' agreement to the statement.

This is followed by the statement 'The level of technological advancement influences international exposure of my company' with a mean of 4.20 and a standard deviation of 1.01. These figures indicate respondents' agreement to the statement. The statement 'the higher my company's working capital, the higher the willingness to expand to foreign countries' having mean and standard deviation of (3.20, 1.34) indicates the respondents are on the fence to decide about the statement. Finally, regarding the statement 'increase in the value and number of employee encourages the decision to expand to other countries' respondents showed their disagreement having mean and standard deviation of (2.29, 1.06). Overall, firm size of firms having four items used in assessing it has a mean of 3.33 and a standard deviation of 0.99.

Table 2

Descriptive stats for competitive advantage

Variable	**Mean**	**Standard Deviation**
Competitive Advantage		
The higher my company's international experience, the higher the urge to expand internationally	3.48	1.491
Increasing length and scope of my company's international experience encourages further international investment	3.60	1.452
Possession of a country-specific experience induces setting up international presence in the target country	3.49	1.481
Possession of unique proprietary technology, tacit know-how, and firm reputation induces our companies propensity to expand to foreign countries	3.49	1.519
The reputation of our company in the industry encourages international operations	3.29	1.447

The result indicates that the statement 'increasing length and scope of the company's international experience encourages further international investment' with mean and standard deviation of (3.60, 1.45) leads to respondents agreement with the statement. Followed by the statement 'Possession of a country-specific experience induces setting up international presence in the target country and Possession of unique proprietary technology, tacit know-how, and firm reputation induces our company's propensity to expand to foreign countries' having mean and standard deviation (3.49, 1.48) and (3.49, 1.51) respectively which describes an agreement.

On the other hand, respondents with a mean and standard deviation of (3.48, 1.49) agreed with the statement that refers when the company international experience going advanced, the higher the urge to expand internationally.

Lastly, the statement 'the reputation of our company in the industry encourages international operations' with mean and standard deviation of (3.29, and 1.45) tends to respondents agreement to the statement. In general, competitive advantage of firms assessed using five statements has a mean of 3.47 and a standard deviation of 1.00.

Table 3

Descriptive stats on market characteristics

Variable	**Mean**	**Standard Deviation**
Market Characteristics		
Acceptability and adaptability of our products in a foreign country/ culture encourages international presence in that country	2.84	1.375
Favorable government policy in the host and home countries influences decisions to increase international investments	3.65	1.077
Price stability, controlled inflation and favorable monetary policies in a host nation induces my company's foreign exposure in the host country	3.69	1.139
Complementary and receptive host nation's organizational structures, processes and administrative conveniences encourages increased foreign commitment of our company	3.44	1.456
The level, pattern and government regulation of competition in the host nation influences our company's foreign commitment.	3.55	1.447

The descriptive stats obtained from respondents regarding institutional based induced entry decision which was analyzed using 5 items. The statement 'Price stability, controlled inflation and favorable monetary policies in a host nation induce my company's foreign exposure in the host country' had the highest mean and S.D of 3.69 and 1.13 respectively. The researcher observed from these statistics that the respondents agree with the statement.This is followed by the statement 'Favorable government policy in the host and home countries influences decisions to increase international investments' which has a mean of 3.65 and a standard deviation of 1.07, indicating that the response of the respondents is in agreement of the statement.Following that is the statement 'The level, pattern and government regulation of competition in the host nation influences our company's foreign commitment' with a mean of 3.55 and S.D of 1.44, which indicates agreement with the statement. The next highest statement after that is 'Complementary and receptive host nation's organizational structures, processes and administrative conveniences encourages increased foreign commitment of our company' with a mean 0f 3.44 which tells the researcher that the response of respondents tends towards agreement of the statement and S.D of 1.44.

And lastly is the statement 'Acceptability and adaptability of our products in a foreign country/ culture encourages international presence in that country' which has a mean of 2.84 and a standard deviation of 1.375, indicating that undecided response from the respondents. Totally, the variable market characteristics were assessed with five items, has a mean of 3.43 and a standard deviation of 0.95.

Table 4

Descriptive stats on perceived international business performance

Variables	**Mean**	**Standard Deviation**
Perceived International Business Performance Measures		
The foreign sales targets as a percentage of total sales are met by the organization	4.06	1.213
The existing level of international performance is satisfactory to the Management	3.53	1.394
The company's long-term international performance is secured	3.77	1.281

The results of the analysis of perceived international business performance. The statement 'the foreign sales targets as a percentage of total sales are met by the organization' was rated well above the average with a mean of 4.06 and a standard deviation of 1.21, indicating agreement to the statement. Regarding the company's long-term performance is secured or not, the result shows respondents agreement having a mean 3.77 and standard deviation of 1.28. Whether the existing level of international performance was satisfactory to the management or not was rated with a mean of 3.53 and S.D of 1.39. The researcher observed that the respondents' response tends towards agreement to the statement. Overall, perceived international business performance measures having three items used in assessing has a mean of 3.10 and a standard deviation of 1.04.

Inferential Analysis

Pearson correlation and multiple linear regressions are the main inferential methods employed in this study to analyze the relationship between independent variable and dependent variable.The results of the bivariate correlation based on Pearson's correlation statistics in the below table shows that all independent variables are related and statistically significant at a significance level of 0.01 suggesting the strong relationship between the independent variables and international business performance.

Market characteristics had a significant and high positive correlation with international business performance, r (287) = 0.703, $p < 0.05$. The nextvariablewith a high and positive correlationcoefficient,r (287) = 0.650, $p < 0.05$ is competitive advantages of firms. This implies that the magnitude of the correlation, the relationship of market characteristics and competitive advantage of firmswith international business performance is high with a positive significance.

Firm size,r (287) = 0.630, $p < 0.05$is found tobethevariablewith a high and positive correlationcoefficientnextto market characteristics and competitive advantage.

Table 5

Pearson correlation analysis

		BP	**TCBIED**	**IBIED**	**RBIED**
Business Performance	Pearson Correlation	**1**			
	Sig. (2-tailed)				
	N	**287**			
Firm Size	Pearson Correlation	**.630****	1		
	Sig. (2-tailed)	**.000**			
	N	**287**	287		
Competitive Advantages	Pearson Correlation	**.650****	.750**	1	

	Sig. (2-tailed)	**.000**	.000		
	N	**287**	287	287	
Market Characteristics	Pearson Correlation	**.703****	.441**	.431**	1
	Sig. (2-tailed)	**.000**	.000	.000	
	N	**287**	287	287	

Multiple Linear Regression Analysis Result

As we observe from the below table, The R value indicates the quality of the prediction of the dependent variable. The value 0.825 indicates a good level of prediction and the cumulative coefficient of the independent variables is strong.

R-squared evaluates the scatter of the data points around the fitted regression line. It is also called the coefficient of determination, or the coefficient of multiple determinations for multiple regressions. For the same data set, higher R-squared values represent smaller differences between the observed data and the fitted values. The value 0.680 shows that our independent variables explain 68% of the variability of international business performance was explained by independent variables included in the model. The remaining 32% of the variations shown are caused by factors other than the predictors included in the model.

Furthermore, to accurately report the data interpretation of adjusted R square is another important factor. High difference between the values of R-square and adjusted R square indicates a poor fit of the model. A value of 0.677 indicates that 67.7% of variation in the outcome variable is explained by the predictors which are to keep in the model. The standard error is a measure of the precision of the model and it is an important indicator of how precise an estimate of the population parameter the sample statistic is. On average, our estimates of international business performance with this model will be wrong by 0.4869.

Table 6

Model Summary Table

Model Summary	**Durbin-Watson**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.825[a]	.680	.677	.4869	1.792

a. Predictors: (Constant), Resource Based Induced Entry Decision, Institutional Based Induced Entry Decision, Transaction Cost Based Induced Entry Decision b.

Dependent Variable: Business Performance

Table 7

ANOVA model fit

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	197.450	3	65.817	200.424	.000[b]
	Residual	92.934	283	.328		
	Total	290.384	286			

a. Dependent Variable: Business Performance

b. Predictors: (Constant), Resource Based Induced Entry Decision, Institutional Based Induced Entry Decision, Transaction Cost Based Induced Entry Decision

The above table shows that the significance value of F statistics value is (. 000), which is the p-value is less than 0.05, thus the model is significant.

Table 8

Regression Coefficients of Variables

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	.268	.147		1.816	.070
	Firm Size	.160	.052	.158	3.090	.002
	Competitive Advantages	.413	.055	.391	7.522	.000
	Market Characteristics	.452	.038	.448	11.934	.000

a. Dependent Variable : Business Performance

The above multiple linear regression coefficient results table indicated that all independent variables (firm size, competitive advantages and market characteristics) have positive and statistically significant effect on the international business performance at 5% level of significance.

The standardize value of Beta Coefficient in the above table indicates, the contribution of each predictor on dependent variable. The test will be significant if the p-value is less than 5%. The beta coefficient is used to determine which independent variables have the most influence on the dependent variable. As shown above, standardized coefficient for market characteristics is high. This indicates that market characteristics have high impact (44.8%) than other predictors mentioned. When the coefficient is larger, shows the higher importance of the predictor as well as higher contribution of the factors to international business performance. Following variable having secondary effect on international business performance was competitive advantages with value of 39.1 percent. Besides, the firm size is found to be the other variable predicting the performance of international business by offering 15.8 percent.

Unstandardized coefficients indicate how much the dependent variable varies with an independent variable when all other independent variables are held constant. The regression coefficient provides the expected change in the dependent variable for a one-unit increase in the independent variable. Hence, the beta coefficients found in the regression are interpreted as below.

- Constant value 0.268 indicates that all other independent variables (firm size, competitive advantages and market characteristics) remaining constant the dependent variable (International business performance) has a rate of 26.8 % of international business performance.
- The beta coefficient value of firm size has ($\beta = 0.160$, $p < 0.05$), indicates keeping other independent variables constant, 1 unit change in firm size will cause 16% positive increase in performance of international business activity.

  Hence, the alternative hypothesis (H1) that firm size has positive relationship with international business performance was accepted.
- The competitive advantage having beta coefficient value of ($\beta = 0.413$, $p < 0.05$) and statistically significant, shows that keeping other independent variables constant, 1 unit change in competitive advantage of firms will cause 41.3% increment in international business performance activity.

  So, the alternative hypothesis (H1) that competitive advantage has positive relationship with international business performance was accepted.
- The market characteristics, according to the results has beta coefficient value of 0.452 ($p < 0.05$) besides which was statistically significant indicates that by keeping other

independent variables constant, 1 unit change in market characteristics will cause 45.2% increase in performance of international business activity.

Hence, the alternative hypothesis (H1) that a market characteristic has positive relationship with international business performance was accepted.

Results, Discussion and Recommendations

The main objectives of the research were to identify critical factors for internationalization of export firms found in Addis Ababa City, on international business performance measures. The study indicates that from 322 sample sizes 287 of them respond to the survey questionnaire.

To achieve this broad objective, the study used quantitative methods research approach. The researcher used primary data for possible achievement of the objective of the paper. Also, close ended questionnaire were used to collect the data.

To this end, the collected data from respondents' were analyzed using SPSS ver. 24. Explanatory statistics was employed to analyze data and the results were tested with nonparametric tests of significance. Besides, measures of central tendency (mean, standard deviation) also were used to analyze the questionnaire survey result.

Accordingly, in this study, three independent variables (i.e. firm size, competitive advantages and market characteristics) and one independent variable (international business performance) were included. The regression analysis was made in line with the specific research questions and stated hypotheses formulated in the study. In doing so, previous studies on factors influencing internationalization have been reviewed and as per the literature factors influencing internationalization were expressed as a function of firm size, competitive advantages and market characteristics.

The regression output R= 0.825 indicated there was a high correlation between independent variables (firm size, competitive advantages and market characteristics based entry decisions and dependent variable (international business performance). The value R^2=0.680 showed our independent variables explain 68% of the variability of international business performance measures was explained by independent variables included in the model indicated good fit of the model. Besides, the F-ratio $F(3,283) = 200.42$, $p (.000) < .05$ in the ANOVA indicated the overall regression model was a good fit for the data.

Findings based on the survey revealed that firm size has a positive relation with internationalization. Influential factors for internationalization of export firms were increase in the value and number of employees and high market potential of the host country. In the meantime, competitive advantage has also positive and statistically significant relation with improved international business performance. Critical factors for international presence of the companies were possession of unique proprietary technology and the reputation of their companies in the industry. Lastly, positive and significant relationship obtained between market characteristics and internationalization. Critical influential factor for internationalization of firms was host countries that have complementary and receptive organizational structures, processes and administrative conveniences.

To enhance their competitive position in the global market place, Ethiopian export firms should prioritize their efforts to expand internationally. Accordingly, based on the findings of the study the following recommendations may have been forwarded:

- Export firms shall increase the value and number of employees to be encouraged to expand to foreign countries.
- Another key recommendations emanating from this study is that export firms shall concentrate on host countries that have high market potential while deciding presence on international activity.
- Possession of unique proprietary technology shall be increased to influence international exposure of a company.
- Export firms shall increase the reputation of their companies in the industry to be encouraged in international operation.
- Export firms should focus on host countries that have complementary and receptive organizational structures, processes and administrative conveniences to influence international exposure of a company.

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