

# External and Internal Factors on Export Performance in Ethiopian Manufacturing Firms

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**Abstract:** *The study described external and internal factors that affect export performance in Ethiopian manufacturing firms. In this study, self-administered survey was administered to manufacturing exporters in Ethiopia. Descriptive analysis was made in order to show the effect of internal and external factors on export performance in Ethiopia using SPSS version 21. The study disclosed that external uncontrollable forces and internal controllable factors are the causes of export performance in Ethiopian exporting firms. It was therefore, recommended that exporting manufacturing firms in Ethiopia should engage in maximizing their opportunities and work on their strengths to enhance export performance.*

**Keywords:** *External Forces, Internal Factors and Export Performance*

## I. INTRODUCTION

Ethiopian economy is highly dependent on agriculture, though its share is declining now. In 2006, value added in agriculture accounted for 47% of GDP while industry and services accounted for 13% and 39% respectively. The country is gradually liberalizing its economy. Share of merchandise trade in GDP increased from 11.4% in 1990 to 42.1% in 2006. In Ethiopia, exports account for 16% of GDP while imports account for 42.4%. Ethiopia has been exporting mainly traditional export. In terms of merchandise exports, there has been a growth at an average rate of 7% during 1981-2008 while manufacturing exports were growing at an average rate of 4%. Real merchandise exports were 1.16 billion USD in 2008, while manufacturing real exports were 92.3 million USD, 8% of merchandise exports. Merchandise export revenue was greatly dependent on non-manufacturing exports. In view of that, the average share of manufacturing exports from 1981 to 2008 was around 14.4% [1]. Ethiopian export is characterized by the low volume of exportable products, the limited degree of diversification of exports (mainly of unprocessed primary products), frequent economic crisis which significantly reduce the need for and prices of primary products, artificial trade barriers by trading partners etc. [2]. In Ethiopia, manufacturing exports are now showing a lingering growth that their share in total exports declined from 14% in 1981 to 4.6% in 2004. Likewise, share of manufacturing in merchandise exports declined from 20.5% in 1981 to 8% in 2008. This has possible consequences for Ethiopia. First, it indicates that growth in manufacturing exports is weak, but it is high in non-manufacturing exports, primary products. Second, it implies that Ethiopia's exports are not as such value adding & linkage creating in the domestic economy, for the primary exports are mostly raw or with minor processing [1].

Ethiopia's annual exports lately reached a never-before-seen level of 2 billion USD, a growth of 38 percent from the previous year. Based on recent data on the composition of exports, this note reviews the source of the growth in terms of both supply-side factors (i.e., which commodities showed the largest increases) and demand-side contributors (what foreign markets mattered most) [3]. As it is evident from its contribution to the different sectors of the economy, the export sector plays a vital role in the growth of performance of Ethiopia. In the past four decades, for example, export has contributed on average about 11.3 percent to the country's GDP. Furthermore, it generates the much-needed foreign exchange earning that is basically meant to finance the country's imports. In addition to foreign aid and grants, the country makes use of the foreign exchange generated from the export of primary agricultural products to import almost all of its intermediate inputs, capital goods and fuel, which are considered to be crucial for its economic growth [4]. Based on the empirical finding on Ethiopian export determination model, real GDP of home country, real effective exchange rate, trade liberalization, financial development, infrastructural development determines the country's export positively and significantly. However, real GDP of trading partners was found to be statistically insignificant to determine country's export in the long run. Amongst the abovementioned variables, the only determinant of the country's export in the short run was found to be trade liberalization (openness), and it is found to be positive and statistically significant; however, the other variables are found to be statistically insignificant [5]. They also showed that good institutional quality and internal transport infrastructure belong to major determinants, yet the real exchange rate and FDI appear to have no statistically significant influence on export performance of Ethiopia. Ethiopia is endowed with diverse resources for exporting, and value could be added to the resources via manufacturing to export. But when the export performance is compared with the potentials of the country, the export performance is engraved with a tiny ratio. In addition, Ethiopian export as compared to other countries' (even sub-Saharan African countries'), its export performance is found at the lowest stage. Ethiopia's export of agricultural items is also low when compared to the export of agricultural items of other countries. Therefore, this study fills gaps by coming up with the solution to the current problem by identifying key factors that affect export performance so that the concerned stakeholders will take them into account to alleviate the problem prevailing in the sector.

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So, this research aims to disclose internal and external factors that affect export performance of the Ethiopian firms currently engaged in the manufacturing export sector.

## II. REVIEW OF LITERATURE

### 1.2.1 External and Internal Factors

The key factors that affect firms' export performance includes; export intensity [6 & 7], export sales efficiency, [8], market diversification and rate of new market entry [9], rate of new market entry compared to competitor [10], external political relation of a country and nearness to port [11], quality of distributor relationship [12 and 13],

Product/service quality compared to competitors [14], and new technology and expertise [15].

## III. RESEARCH METHODOLOGY

A descriptive research design was employed to elucidate factors affecting Ethiopian exporting firms' performance. In addition, a self-administered survey was administered to manufacturing exporter in Ethiopia. Descriptive analysis was made to show the effect of internal and external factors on export performance in Ethiopia using SPSS 21.

## IV. RESULTS

Factors	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Export Intensity	440	1	5	4.18	.845	.714
Export intensity growth	440	1	5	4.14	.932	.868
Export sales efficiency	440	1	5	4.07	.964	.929
Export sales growth	440	1	5	4.12	.909	.827
Export sales return on investment	440	1	5	4.13	.951	.905
Export sales volume	440	1	5	4.10	1.056	1.116
Export market share	440	1	5	4.17	.894	.799
Gaining foothold in the market	440	1	5	4.13	.782	.611
Market diversification	440	1	5	3.81	1.163	1.353
Rate of new market entry	440	1	5	4.11	.958	.917
Export success	440	1	5	4.15	1.029	1.059
How competitors rate firm's export performance	440	1	5	4.08	1.032	1.066
Meeting expectations	440	1	5	4.11	1.030	1.061
Achievement of objectives regarding response to competitive pressures	440	1	5	4.18	1.037	1.076
Building awareness and image overseas	440	1	5	4.13	.935	.875
Contribution of exporting to the growth of the firm and to the quality of firm's management	440	1	5	4.06	1.039	1.079
Customer satisfaction	440	1	5	4.05	1.028	1.057
Gaining new technology/ expertise	440	1	5	4.02	1.010	1.020
Product/service quality compared to competitors	440	1	5	3.98	.958	.918
Quality of distributor relationships	440	1	5	4.11	.966	.934
Nearness to port	440	1	5	4.10	.883	.780
External political relation of a country	440	1	5	4.13	1.013	1.026
Export market share growth	440	1	5	4.12	.848	.719

### Internal factors and external forces that determine manufacturing firms' export performance in Ethiopia

The following are common factors that affect firms' export performance:

- Export sales growth

Economic benefit is one of the main determinant factors that affect a firm intended to enter in a foreign market, i.e. exporting. Keeping the unit cost of selling constant, the

price and volume of manufactured export items are important factors that lead to higher export growth.

In this study, export sales growth as a variable of economic or financial measures of export performance is found to have positive impact. The finding is in line with other previous studies [16, 17, 18, 19, 20, 21 and 22].

This study supports the finding of earlier studies [23, 6 and 7].

Export intensity (the percentage of sales sold internationally) has to be growing for an exporter to maintain in the business since it's a continuous export activity [24], even the export growth rate must be compared with performance of immediate competitor so that the existing strategy can be revisited and appropriate strategic response and readjustment about the exporting strategy can be done.

- Export sales efficiency

As it has been identified [25], export-oriented industries were found to be relatively efficient and realized their comparative advantage in the world market. Similarly, this study supports the finding of the earlier empirical evidence. The overall finding goes along with some of the findings of the study across the globe. The sales related export measures are founded as one of the determinants of manufacturing export performance in the Ethiopian context.

- Market Diversification

It is important to recall that [9], identified the two basic growth strategies as *concentration* on the current product line(s) in one industry and *diversification* into other product lines in other industries. Diversification is about exporting different in different industries be it in the same destination or different. In this study, Ethiopian manufacturing exporters believed that involving in a diversified business is a key to export success. The result goes along with the earlier studies.

- Rate of new market entry

Hunger (2012) also disuccessed that entering into a new market is one of the strategies with which firms wanted to expand their businesses. The rate of new market entry is one facet among the marketing related export performance measures the respondents rated as a success factor in the export sector of ethiopian manufacturing. The finding of this study is; thus, in line with similar studies done in the same and different titles in manufacuring and other sectors.

- Rate of new market entry compared to competitors

Competition is one key element in business environment. Especially in the export market from the same source necessitates to tap the market so as to reap the fruit of first mover advantage. Otherwise the late mover will face difficulty obtaining the market share. Better efficiency, cost-minimization, better quality product and other methods may need huge resource and effort so as to share the market. In this context, the Ethiopian export manufacturing business need to speed up in seizing the market firstly than their competitor.

Why have market-related economic performance measures shown a strong impact on the overall export performance? One possible interpretation is that it is because the manufacturing sector of the country is found at the lowest stage. Since some of the major marketing decisions, such as promotion, need some time so as to create a good image and believability across the country and search a market to sell. In addition, the country's economic priority is shifting from

the agricultural sector to manufacturing sector. In this respect, the boom of export needs an exporter to see the opportunity of trade deal. On these instances, the finding of this study is going parallel with other studies in the fields [10].

- External political relation of a country

The political relation between the exporting and importing countries would have an impact in doing business. For example, a number of exporters and importers were in jeopardy during the Ethio-Eritrean war of 1998. Here, the import and export trade agreement, the letter of credit settlement and similar transactions might be affected.

- Nearness to port

There is a positive relationship between the nearness to port and export performance success. Time to export products and import inputs, the transportation cost and similar issues affect the success of the manufacturing industry [11].

- Quality of distributor relationship

Another author [12] argued that a successful marketing system is a win-win partnership that is characterized by mutual benefit, mutual competence, mutual respect, mutual integrity, mutual enthusiasm and competitive alternatives. [13] consider channel members as builders. Each manufacturer considers its distributor a customer, a channel partner, who must then in turn market to builders. Builders have customers as well, and manufacturers have a chain of suppliers. The main goal of a competitive edge in system efficiency and customer value-in a global marketplace- has introduced new ways of coordinating the parties. [26] claimed that in view of the relationship paradigm, export marketing is driven by the step-by-step development of relationships, in which the relationship intensity, the reciporicity and the long-term commitment are key elements.

- Product/service quality compared to competitors

Another contributor [14] argued that, several western exporters must focus on quality in their strategies, for it is difficult for them to compete only on price. Many new exporters compete on value in the segments they have chosen. This idea is equally applicable in Africa, Ethiopia too. In addition, [27] asserted that the key success factor in export marketing is offering the best-value products because they are of higher quality and more advanced features at better prices. The best value proposition than the competitor enables the exporters to succeed in the market.

- Gaining new technology and expertise

The capability literature highlights the significance of a firm as the key player in the acquisition and assimilation of new technology. For example, [15] argued that firm productivity might be increased once entering export markets as a result of reduction of ex-inefficiency through increased competition, access to new technology, or economies of scale arising from larger markets. They extend the dynamic choice model of [28], on export decisions to let for learning effects—that is, causality to run both from productivity to export also from export to productivity.

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In addition, contribution of exporting to a firm's growth and quality of its management, building awareness and image overseas, achievement of objectives regarding response to competitive pressures, how competitors rage firm's export performance, meeting expectations and export success are as well the nature of most of the facets of non-economic measures and is strategic in nature.

For example, one is image. Image building, as a branding activity is of a territory stage in marketing. For infant manufacturing industries in countries like Ethiopia, the technological expertise and the pace might be quick but needs some time to be skillful. The other possible reason is the limited forcing direct investment. Most of the manufacturing sector exporters are small and medium sized business, which have limited capital, infrastructure and skillful labor. But, in the future, the building of industrial parks across all the regional states would invite famous companies involved in textile, beverage, mining, meat and leather industries in the country.

## V. CONCLUSION

The following factors affect firm's export performance of Ethiopian manufacturing firms; export sales growth, export intensity, export intensity growth compared to competitor are the facets of economic measures, export sales efficiency, market diversification, rate of new market entry, rate of new market entry compared to competitors, external political relation of a country, nearness to port, quality of distributor relationship, product/service quality compared to competitors, gaining new technology/expertise.

## RECOMMENDATIONS

Based on the research outcome, the researcher forwarded the following recommendations:

- The Ethiopian government should support the manufacturers with technology, finance and market-related advantages so that the manufacturers would be competitive in international market.
- The exporting manufacturing firms should identify their treats and weaknesses to solve problems proactively.

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