

# Analyzing the Effect of Export Promotion Programs on Export Performance of Manufacturing Industries in Ethiopia

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## Abstract

International trade is defined as economic transactions between countries worldwide. Encouraging the export promotion programs is critical for export performance of manufacturing industries. This study looks at how participating in the government's Export Promotion Program might assist enterprises to enhance their export performance. To achieve the study objectives a mixed research approach was used. The study investigated how 38 Ethiopian manufacturing firms, representing three industry sectors, obtained information about export promotion programs and their level of awareness of these programs. The data were collected with the help of questionnaire and interviews. The research model shows the impact of the Export Promotion Program (EPP) on the export performance of Ethiopian manufacturing exporters through its role in teaching marketing skills. The results of this study provided supporting evidence for the role of mediating some of the market capacity between the government EPPS and export performance.

**Keywords:** Export Promotion Program, Marketing power, marketing strategies, export performance, policymakers

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## INTRODUCTION

Exporting is one of the significant preliminary steps of an enterprising organization towards expanding its international business activities. Export performance is the relative success or failure of the efforts of a firm or nation to sell domestically-produced goods and services in other nations. Export promotion Programs are practiced by developed as well as developing countries and covers a multitude of policy interventions which may range from public goods provision to exchange rate policies, from financial assistance to marketing and advertising services. The relationship between EPPs and Export performance in the target export market is not straight forward and simple, rather it is complex.

Successful exporting has been described as the engine of economic growth and in the economy has been found to derive their potency in successful exporting. From engaging in export marketing by firms, the number of export marketing studies has continued and is continuing to increase. Over the years, studies in this area have been recognized as a legitimate academic endeavor.

Many Countries are adopting Government supported EPPs to help actual and Potential exporters to develop a better level of insight about export markets. Francis, Collins-Dodd (2004) has described about the Role of Government Supported-EPPs in helping exporting companies to achieve superior performance in overseas markets. Government supported EPPs provides a number of benefits to exporters in the form of giving export information, Export advice, marketing support, financial support and guarantees, and promotional activities abroad (Cavusgil & Yoeh, 1994).

The government offers various initiatives in export promotion programs to help local businesses engage in international business activities. These initiatives include exhibitions; trade fairs workshops, seminars, market reviews, and international visits. This is primarily due to helping managers overcome mental barriers and develop a positive attitude towards the export business. These export support programs are important for developing the skills / capabilities of a company and building the basic knowledge and experience to successfully participate in foreign markets. The company's export exposure affects its export performance.

In this study, the role of EPPs on export performance in manufacturing industries which are supported by different institutes like Chemicals and construction inputs industry development institutes (CCIIDI), Food Beverage and Pharmaceutical Industry Development Institute (FBPIDI),

Leather Industry Development Institute (LIDI), and from Metals Industry Development Institute (MIDI) will be examined in relation to the mediating role of marketing capability of the export Business. Export performance is the relative success or failure of the efforts of a firm or nation to sell domestically produced goods and services to other nations.

Some of the points examined in this study will be, Information-Related Export Promotion Program & Export Performance, Financial Aid-Related, Education and Training-Related, Legal-Related, Market Selection-Related and Marketing Strategy-Related Export Promotion Program & Export Performance. The main concern

of this study is to review the effect of export promotion program on the export performance in the export market. Basically the main issue is to know the extent to which promotion efforts has led to increase in sales volume and profitability. Data analysis is used to answer the following for appraising how sales promotion effectively increases profitability in the economy of the country.

### Research questions

- i. Which promotion program tools are implemented on export procedure?
- ii. Which of the promotion tools or programs are suitable and consumer react more?
- iii. What is the effect of promotion programs on the economy at large?

### Research objectives

The overall objective of the study is to analyze the effect of export promotion programs on export performance on selected manufacturing industries which are supported by different institutes.

Specifically the study aims:

- To evaluate the success of export promotion programs implemented on exporting procedure in the country.
- To find out which of the export promotion tools or programs that make a consumer react more.
- To measure the effect of export promotion program on consumer buying decision and export performance.

### Significance of the study

This research work shall be beneficial to all export oriented organization in particular it is desired that the finding of this study will help to throw more light on the need for or effect of export promotion programs on company selling and consumer buying decision. The purpose of the study is also to stimulate increase in the use of export promotion as an effective instrument for influencing consumer buying decision. It will also help the top management of the manufacturing industries and their executive in acquiring good understanding of export promotion instrument that will be of great important in achieving their export performance goals and also to increase country's markets share.

### Review of literature

#### Theoretical Review

#### Relationship between EPPs and Export Performance

##### A. Information-Related Export Promotion Program & Export Performance

If companies lack adequate information when they enter into an unfamiliar foreign market their performance will naturally be inferior. Toften and Olsen (2003) conceptualized the causal relationship between knowledge and export performance, and proposed that a firm which use internal and external information develop explicit and tacit knowledge will contribute to the firm's export performance. Possessing adequate, relevant, and accurate information is of paramount importance for the exporting firm, due to the high uncertainty, heterogeneity, and volatility characterizing the international business environment (Welch & Wiedersheim-Paul, 1980).

##### B. Budgetary Aid-Related Export Performance Program and Export Performance

Cross boarder trading involves excessive costs including researching overseas target markets, adapting products and packaging, transportation costs, additional taxes, and so on. Wiklund and Shepherd (2005) indicated access to financial resource facilitates entrepreneurial orientation and ultimately magnifies its performance. Companies with a low level of adoption of the financial aid- related EPPs are constrained in deploying their resources in order to transform export marketing strategy into realized actions. Access to financial resource amplifies the complementary effect of entrepreneurial and market orientations on the success of export of new products (Boso et al., 2012).

##### C. Education and Training-Related Export Performance Program and Export Performance

Educating capacity exporters to benefit applicable skills, knowledge, and revel in are important to achieve success in the export goal market. Government EPP's gives specialized seminars, conferences, and workshops, aiming to assist companies to increase a higher degree of know-how in their export mechanics, managing export documentation, and growing export advertising plans and in enhancing their negotiation skills. However, Leonidou et al. (2011) contended that the effect of EPP's on organizational assets and abilities is greater for small Companies than large businesses for the green exporters than skilled exporters.

##### D. Legal-Related Export Promotion Programs and Export Performance

Export corporations are encountering problems in a remote places market. There are many regulations in importing nations which includes charge control, unique tax rates, change controls which create difficulties in repatriating the firm's income tariffs, subsidies, quotas and full-scale import bans. Amongst others, special export assistance applications on criminal recommendation which includes dispute coping with strategies related

to overseas distributor agreement, tax authorities, and repatriation of price range are offered. To accommodate those regulations, governments have undertaken inner bureaucratic reforms together with consolidating diverse scattered export-associated formalities under the umbrella of an unmarried authority's agency (Kumku et al., 1995).

#### **E. Market Selection-Related Export Promotion Programs and Export Performance**

There are greater than 2 hundred international locations with inside the world, as a consequence even as choosing the capability marketplace, the most powerful attention needs to accept to political and financial environment. Many corporations provoke exports as a reaction to unsolicited orders from overseas customers, in place of because of their personal systematic efforts to discover overseas markets (Samiee et al., 1993). Gaston-Breton and Martin (2011) nation that choice of overseas marketplace is an important query with inside the method of global advertising and global business, in addition to in control of that business. Gallegos, Hidalgo, Acedo, Casillas and Moreno (2009) nation that an organization even as looking for capability overseas markets anticipates that its pastime might be profitable. The closing reason of marketplace choice export advertising application is to offer a sound 'matchmaking' provider among the exporter and capability import consumers, a good way to assure a prosperous, long-time period running relationship.

#### **Theoretical Framework of the Study**

Export promotion is a government effort to increase the volume of a country's exports through industrial policies. Or other incentives, foreign investment and intervention policies to achieve economic growth. To provide the theoretical background for this study, the factor resource HechsherOhlin Trade theory and development state theory are discussed briefly.

##### **i. Hechsher-Ohlin Factor Endowment Trade Theory**

Eli Heckscher and Bertil Ohlin (1991), the two Swedish economists, focused their attention on how a country could gain comparative advantage by producing products that utilized factors that were in abundance in the country. Provided demand patterns do not differ much between countries, the Hechscher-Ohlin theorem of trade states that: "countries will export those goods whose production is relatively intensive in the factor with which they are well endowed" (Winters, 1991). The HO trade theory provides the rational to justify our export promotion strategy because it is logical that industrial countries, which had plenty of capital, should specialize in capital-intensive sectors of the economy while less developed countries (LDCs), with their cheap labor, should invest in labor-intensive industries (Biel, 2000).

##### **ii. Theory of Developmental State**

Government or States have played a strategic role in taming domestic and international market forces and harnessing them to a national economic interest (White & Wade, 1988, p. 1). "The modern notion of 'development' rests on a concept of the state as the primum mobile of socio- economic progress. It draws on the historical argument" (Gerashchenko, 1966) that successful 'late development' takes a form very different from that of the early industrialisers, notably United Kingdom: it is less 'spontaneous', more the subject of teleological determination, which the state playing the role of historical animator. 'Guided market economies' are market economies in which the state tries to achieve its objective by influencing the market-by shifting the composition of what is profitable (White & Wade, 1988). In this study the effect of different types of EPPs on export performance are mediated by marketing implementation capabilities.

#### **Empirical review**

According to Seyed Hussein Jalali (2012) in the current research, the multidimensional natures of export performance results are more reliable than commonly used single item measurements previous research. And finally, a positive correlation between the use of export promotions Program and export performance found and supported surveys added similar results. In addition, this study confirms the central role of exports emphasize strategies and mediation in the process of developing export performance the effect of the export strategy on the effect of the export promotion program on the way to export performance. The results show the positive effects of using an export promotion program. Export performance from direct and indirect methods. Empirical evidence clearly shows this Export promotion programs do more than just have a direct impact on exports.

Another path is described between export promotion programs and exports performance through export knowledge and then export strategy. Export promotion programs have traditionally been seen as interventions that correct market failures such as information and lack of knowledge (Volpe Martincus and Carballo, 2010). It is believed that knowledge underlies competitiveness; exporting companies should strive to gain both explicit and implicit knowledge of foreign markets (Toosystem and Olsen, 2003). Explicit knowledge can be generated using standardized and learned methods through formal research such as market research. Export promotion programs can provide clear knowledge of several economic, political, and cultural and technology factors in the export market. These programs can also help company's valuable insights into market forces such as competitive

trends and suppliers. In On the other hand, tacit knowledge can only be gained through practical experience in relevant context. Export promotion programs play a different role here and should consider a supportive strategy. This survey provides empirical evidence to justify the use of reasonable use of EPP and marketing capabilities contributing to export Literature in developing countries. PPS information, Financial and marketing prices EPP strategy, EPPs recall has a positive effect on marketing implementation ability.

### Methods

To achieve the study objectives a mixed research approach was used. This study used an unexpected sample allocation method. The most likely sample is to select the sample item based on the researcher's judgment, not luck. Sampling and records series the sample technique commenced with the identity and advent of a list of manufacturing industries. Accordingly, the study investigated how 36 Ethiopian manufacturing firms, representing three industry sectors, obtained information about export promotion programs and their level of awareness of these programs. The data were collected with the help of questionnaire and interviews.

### Results and Discussion

#### Facts of Organization relation to EPPs

Out of 38 export manufacturing companies 25 (65.8%) are established from 6 to 10 years and 13 companies (28.8%) have more than ten years. If factories are engaged in long years of production and marketing of their products to the world market, it will help them to lead a healthy export process over time and in their operations, both internally and externally.

Table 1: Year of Establishment of the industries

	Frequency	Percent
6-10 years	25	65.8
> 10 years	13	28.9
Total	38	100

Source: Survey Result (2022)

Of the 38 exporting manufacturing industries selected for this study 52.8% (19 industries) produced more than 5 products. 27.8% (10 industries) produced from 3 up to 5 products. The rest 19.4% (7 factories) lies to produce only 2 products. Table-6 indicates that amount of products that companies produced.

Table 2: Amount of products produced

	Frequency	Percent
2 products	7	19.4
3 – 5products	12	27.8
More than 5 products	19	52.8
Total	38	100

Source: Survey Result (2022)

In terms of raw materials utilization, the majority of industries import machinery, various chemicals, packaging materials, and raw materials from both domestic and international sources; 38 manufacturing industries out of 22 industries (61.1%) use raw materials from both domestic and international sources; Domestic products are used in 13 industries (33.3%) and only 5.6 percent of the time (2 industries).

Table 3: Source of raw materials

	Frequency	Percent
From abroad suppliers	2	5.6
From domestic suppliers	13	33.3
From both suppliers	23	61.1
Total	38	100

Source: Survey Result (2022)

#### Achievements of Export promotion programs

Out of 38 respondents, 63.9% (23) clearly agree that the major achievements of export promotion programs (EPP) are to promoting local products and potential to foreign markets, while 19.4% (7 respondents) responds that for the expansion of goods to foreign markets. The rest (11.1% and 5.6%) of the respondents react to create awareness in the minds of the target customers as well as improve earnings from the export of our product and create new jobs, respectively.

From the manufacturing industry's response, we can comprehend that the major success of EPP or how it helps when the domestic market is small. The foreign market provides opportunities to achieve economies of scale and growth via different promotional systems. Table-3 shows that the major EPP achievements of the manufacturing industries. On the other hand EPP helps to the company:

- Knowledge of export practices and opportunities
- Increased awareness of products in specific export markets;
- Gaining a market foothold;
- Increased market share in export markets;
- Pre-empt competition in export markets; and
- Increase profitability of the company with exports

Table 4: Achievements of Export promotion programs

	Frequency	Percent
Improve earning from export of our product and create new job	2	5.6
To create awareness on the minds of the target customers	4	11.1
To promote the local product and potential to foreign market	23	63.9
For expansion of good to foreign market	9	19.4
Total	38	100

Source: Survey Result (2022)

### Challenges of Export promotion programs

Among the major challenges faced by Ethiopian exporters in international markets in export promotion programs are a lack of government support in terms of funds and organizing events in international markets; a lack of commitments and motives by business attaches working under Ethiopian embassies; and a lack of commitment and attention from concerned government offices. As we have seen in the graph, the lack of commitments beside the business attaches and embassies covers a major EPP challenge, which is out of 38 respondents, 15 (41.7%). Less commitment and attention given to EPP by concerned bodies also has 36.1% (13) taking the second place of the challenges to EPP.

### Economic benefits of Export promotion programs

From 38 respondents, 23 of them (63.9%) believe that the economic benefits of EPP maximize the profit level of industries and support the economic development of a country by generating tax as a means of revenue. Thirteen (30.6%) respondents said it grows the sales of products produced domestically in the international markets, and the rest 2, or 5.6%, believe it enhances countries' earning from export and creates employment opportunities.

### Information related EPPs

More than 80% (29 out of 38 respondents) of manufacturing exporter companies get a full and relevant EEP from embassies, promotion institutions, chambers of commerce, importers, and different agents. The remaining percentage (20%) falls under the Ministry of Industry, from different institutions, websites, printing and electronic media, etc. On the other hand, most manufacturing industries couldn't get enough accurate information to activate their promotion. Surveys indicate that only 5.6% of companies have full information access to EPPs.

Among the 38 industries, 52.8% participate in Sudan, Kenya, Egypt, Dubai, China and other international export promotion programs, while 47.2%, for plenty of reasons, couldn't participate in any programs. This result shows that most Ethiopian export manufacturing industries don't have any experience of promoting their products internationally.

The reasons for poor information flow to EPPs are that there is no joint and formal collaboration of government institutions in delivering up-to-date information regarding where and when trade fairs and business information will be held; the absence of companies' participation in workshops or meetings organized by concerned offices; and different attitudes, political situations, and institutional set-up problems. In the survey, respondents also gave the above reasons for each 63.9%, 30.6%, and 5.6%, respectively.

### Financial-aid related EPPs

As the survey infers, 63.9% of the respondents have received financial aid for export promotion programs. When I asked some managers some years ago, we had an aid which was given by the United Nation Development Program (UNDP). But after the COVID-19 pandemic, everything is stopped and we can't promote even by funding ourselves. More than 36% of the respondents couldn't get any chance of financial aid to promote their products internationally. Generally, the issue of financial aid-related to export promotion through the government is so low that to appreciate this program, all stakeholders must give emphasis to increasing export performance. That's why 84% of the respondents agree that the financial aid-related programs have a positive and direct relationship with performance.



### **Education, Training and Development related EPPs**

Education, training, and development-related export promotion programs assist companies, particularly potential exporter companies, in filling attitude, knowledge, and skill gaps. We can understand that among 38 respondents, all 100% agree that educating potential exporters to gain relevant skills, knowledge, and experience is critical to being successful in the export target market.

### **Legal-Related Export Promotion Programs**

As we understand from survey results, 35% of the respondents due to promotional, 17% of the respondents said product quality problems; 48% of the respondents argue that due to being unable to understand proactively the countries' trade rules and regulations; due to poor competitiveness, 48% of the companies face difficulties in international markets. After all, the international market by itself is very dynamic and hard to understand.

### **Market Selection-Related Export Promotion Programs**

The political environment of global marketing is comprised of a collection of governmental institutions, political parties, and organizations that represent the people of the world. Anyone working in global marketing, in particular, should have a broad awareness of the relevance of sovereignty to national governments. Political risk assessment is critical since the political environment differs from country to country. It's also crucial to understand how a government handles taxes and asset captures. Expropriation, confiscation, and nationalization have all been used in the past to achieve this.

The global market's potential and opportunity are heavily influenced by the economic situation. Capital movements are the driving force in today's global economy; production is decoupled from employment; and capitalism has defeated communism. The world's economies can be classified as market capitalism, centrally-planned capitalism, centrally-planned socialism, or market socialism based on resource allocation and ownership patterns. Many previously centrally controlled countries transitioned to market capitalism in the last years of the twentieth century. However, there is still a significant gap in economic freedom amongst countries around the world. In the survey that we gathered from selected exporter companies, it was implied that their reactions to those political and economic conditions could affect the potential market directly by 58.3% (21) and 41.67% (15) respectively.

### **Firms export knowledge**

The mean value of the staff members with full understanding of export is 1.75, with a standard deviation of 0.44. Furthermore, 25% (9) of the 36 respondents did not have a complete understanding of exports. This suggests that a lack of understanding of export concepts and practices may lead to people not knowing when, how, and to whom they should export at what level. As a result of such issues, the export sector suffers a decline or slump. The 22.2% result of the respondents shows that to fill their export knowledge gap, they strongly agree that they had to take different types of training at different times. The rest, 38.9% agree, 27.8% of them are neutral, 8.3% of the results show that they don't agree, and 2.8% strongly disagree. With this issue, the total mean value results in a standard deviation of 1. Due to knowledge gap 30.6% of the respondents assure that due to knowledge gap their company's export performance is declined with mean value of 2.19 and Standard Deviation of 1.1.

### **Firms' commitment**

Instead of commitment, the respondents lose their export performance because of commitment with mean value 2.56 and Standard Deviation of 1.32. Here the response figure shows that agree and neutrals are equally 27.8% as well as 25% are strongly agreed to lose the performance of export due to commitment. The rest strongly disagree and disagree both 13.9% and 5.6% respectively.

### **Correlation analysis**

#### **Pearson's**

Here two variables are computed which are information related EPPs with export performance. In this case is 1.00. Pearson's  $r$  varies between +1 and -1, where +1 is a perfect positive correlation, and -1 is a perfect negative correlation. 0 means there is no linear correlation between the two variables. Our figure of 1.00 indicates that information related EPPs and export performance have a perfect correlation. If companies have more information on export promotion programs they would perform more on export.

#### **Significance**

We're also absorbed in the 2-tailed significance value – which in this case is  $< .000$ . The standard alpha value is .05, which means that our correlation is highly significant, not just a function of random sampling error, etc. This seems counterintuitive. We have 38 cases in our data set. This means that our study has enough statistical power to identify even very weak effects.

## Regression analysis

### Model summary

Elements of this table relevant for interpreting the results:

- R-value represents the correlation between the dependent and independent variable. A value greater than 0.4 is taken for further analysis. In this case, the value is .713, which is good.
- R-square shows the total variation for the dependent variable that could be explained by the independent variables. A value greater than 0.5 shows that the model is effective enough to determine the relationship. In this case, the value is .509, which is good.
- Adjusted R-square shows the generalization of the results i.e. the variation of the sample results from the population in multiple regression. It is required to have a difference between R-square and Adjusted R-square minimum. In this case, the value is .501, which is not far off from .509, so it is good.

Therefore, the model summary table is satisfactory to proceed with the next step. However, if the values were unsatisfactory, then there is a need for adjusting the data until the desired results are obtained.

Table 5: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.713a	.509	.501	.60301

a. Predictors: (Constant), Export performance

Source: Survey Result (2022)

### Conclusion

This study investigated how 36 Ethiopian manufacturing firms, representing three industry sectors, obtained information about export promotion programs and their level of awareness of these programs. Responding firms were grouped on the basis of firm demographics and export characteristics. Significant differences were evident among groups in the frequency with which they sought information about export promotion programs and in their degree of awareness of the spectrum of export promotion programs.

The research model shows the impact of the Export Promotion Program (EPP) on the export performance of Ethiopian manufacturing exporters through its role in teaching marketing skills. The results of this study provided supporting evidence for the role of mediating some of the market capacity between the government EPPs and export performance. This study provided strong evidence of the effective use of EPP and marketing initiatives that contribute to the export of literature to developing countries. Information-related EPPs, financial support-related EPPs, marketing strategy EPPs, and other EPPs have a positive impact on marketing initiatives.

However, the marketing function does not exclude the export performance of information-related EPPs, grant-related EPPs, strategic marketing EPPs, and other EPPs. Awareness creation and appreciation of these EPPs might not have been communicated through appropriate media to the target exporting companies. In the light of the growing diversity, complexity, and volatility of the for exporting companies to overcome export-related challenges and achieve superior export

Performance international business environment and the exporting country's context, government EPP support is required to be both attractive and flexible in enhancing the abilities of exporting companies. The study illustrated how government EPPs (financial, informational, education/training, legal, market targeting/market selection, marketing strategy, and miscellaneous programs) will be of a great help for exporting companies to overcome export-related challenges and achieve superior export performance.

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