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# Economic Liberalization, Privatization and Globalization Hodge-Podges: Ethiopian Manufacturing Firms Retort from Marketing Perspectives

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## Abstract

*This study has been focused on examining examine the dynamics of liberalization, privatization, and globalization in relation to export performance for Ethiopian privatized manufacturing firms since 1991. To achieve these objectives, cross-sectional data was collected from 114 fully privatized manufacturing firms through key informant approaches and structural equation modelling (SEM) was used. This model identified liberalization, privatization, and globalization as independent variable under competitive priority mediating role for export performance. The model tells that all the predicting variables (LPG) in the hypothesized model were significant at P< 0.05 and this shows that economic liberalization, privatization, and economic globalization affect export performance under all competitive priority. The finding shows that LPG stimulates export performance under firm's competitive priority an intervening role. The competitive priority of firms comprises cost, flexibility, and quality priority. Those measures confine arouses export performance in terms of both quantitative (market share, profit) and subjective measures (export satisfaction) indicators. The extent of law-and-order commitment towards financial and non-financial incentives) and the overall trade openness use as liberalization indicator.*

**Keywords:** Economic Liberalization, Privatization, Globalization, Manufacturing Retorts, Export.

**JEL Classification:** M10, M31, M40, M50.

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## 1. Introduction

In today's corporate environment, marketing theories have been in state of flux and have been influenced by a variety of factors. The global market is currently equivocated due to irregularities in a variety of business contexts. From a marketing point of view, among other things, government political ideology in this case, the commitment and willingness toward economic liberalization, intention towards privatization of state-owned enterprises from unescapable influence of globalization considered as a business shifter (Donahue, 1989). Those variables are prominent, which govern the business in both developing and developed nations Boycko et al. (1993). Liberalization, privatization and globalization (LPG) are powerful forces that expressively change structural and/or operational marketing strategies (Fuerst, 2010). Regardless of its effect, experts in different countries have varied levels of comprehension and sympathy for those principles. Because the concepts are muscularly aligned with the government's ideological and political inclination (right or left-wing orientation), the government's political and ideological orientation, commitment to liberalize the economy, privatization commitment, and understanding of globalization differ.

Because of the change in advancement of technology, we are living within, which is the so-called economic globalization, international marketing has endured a metamorphic change. International marketing desires economic integration more than ever before. The overall marketing system in a global market scenario, the firm's strategy, competition among nations, and even competition among firms become volatile. In the Ethiopian context, the easiest and somewhat less risky international marketing entry strategy is exporting. Exporting is one of the market entry strategies and the internationalization approach. Exporting continued the most popular marketing entry strategy adopted by the firm especially in the developing economy. It provides a high degree of flexibility and cost effectiveness through quickly penetrating new international markets (Samiee, Chirapanda, 2019).

Government intervention in the economy has endured substantial change since the beginning of the 1980s (Fuerst, 2010). The Keynesian welfare state has been evacuation in the developed democracies of the Organization for Economic Cooperation and Development (OECD) to other parts of the world (Potrafke, 2020). In the international competitive stage, ownership structure and measures both in the home and host nation expressively stimuli its export performance. Private and public owned firms have different success factors in the international market stage. Public owned firms encounter continuous performances problem. The performance problems are due to deprived motivations unenthusiastic managerial behavior, leaving managers considerable discretion to pursue their personal agendas rather than focus to the assigned responsibility. State-owned enterprises progressively privatized to the private sector to eliminate the existing problem of public firms and strengthen competitiveness in a competitive environment (Leykun, 2020).

The principal characteristic of public owned firms in Ethiopia dominated by inefficient and mostly managed by politically affiliated individuals rather than well-oriented professionals. The political economy was apt for the monopoly position,

while others depended on excessive government subsidiary Boycko et al. (1993). Instead, private owned enterprises have upright management commitment, follow-up, and better business performance profiles due to egoistic nature of individual for your private business. Furthermore, study by (Rodríguez, 2007) evidence that organizational as well as national economic policy is closely tied to organizational growth, international marketing competitiveness and performance of privatized firms.

Regarding the political economy, between 1974 and 1991, Ethiopia was governed by a socialist political ideology under a stern centralized political system. This ideology strongly contended that government policies and strategies are high degree of rigidity and stringency. The system creates economic distortion and market inefficiency in all sectors of the economy, including the manufacturing sector. After two decays, strategically and ideologically different opponents ruling partly came to power, Ethiopian People Revolutionary Front (EPRDF) presumed different policy adjustment and macro-economic reforms including privatization of inefficient state owned enterprises (SoEs). Even the nation starts to privatize those state-owned enterprises, still as compared other African countries, with regard to adoption of privatization policies, Ethiopia is considered as a late starter in market reforms (Carter, 2013).

The other paradox with regard to reform is that the motive behind economic reform and privatization which was implemented mainly not by own initiatives, but rather due to international pressure like donors and debtors (Ismail, 2018; Carter, 2013). On the other hand, large accommodated public debt leads to national budget deficit (Ismail, 2018) poor performance of state-owned firms in terms of production efficiency, marketing, and poor growth prospects of SoEs (Jesiah, 2014). For instance, the then government, EPRDF (currently changed to prosperity party PP since 2019) which took power in 1991, the government support with policy and strategy for the implementation of structural economic policy adjustment program. The program was led by the World Bank and the International Monitory Fund (IMF). The principal objectives of the program were predominantly center on privatization intended to improve the use of scares public recourses, enhance firms operating and dynamic (Verick, 2006).

Decays after 1991, in 2004, state-owned enterprises in Ethiopia account for 72% of the total manufacturing value added, 62% of the gross value production, 57% of the manufacturing labor forces, and 64% of wage and salaries (Winters et al., 2004). After a Capel of years' Privatization policy adjustment expedition, the process was problematic in its implementation. For example, most of the privatized firms were sold to the single-family owned enterprises (W/yohannes, 2015). In the early stage of the privatization process, there is a problem of selection, which public enterprises were first privatized for whom it transferred. The government simply focus merely on transfer ownership from public to the private owners irrespective of the structural and operational wellbeing of the private firms. Because of this, most of the public owned firms privatized in 1990s were to one or two dominant private owners, and it creates private monopoly. Furthermore, the privatization process is riddled with

corruption and malpractices. This circumstance forces the government to reconsider the privatization procedure and modalities, and forced to renationalization of some privatized companies before.

Changing an organizational structure as well as government orientation is vital due to the change in dynamic business environment due to globalization. Globalization crafts an opportunity on one hand and threats in the other pole, but it is up to the firms capability to adapt their organizational structure and strategy accordingly (Rodríguez, 2007). Globalization helps to the firm to improve productivity and uses its unique competence through gasping global market (Asongu, Nwachukwu, 2017, Items et al., 2016).

## 2. Problem Statement

As export is the easiest and the most popular marketing entry strategy in the internationalization process, the Ethiopian export sector, however, lacks dynamism relative to other countries even in the same continents. The structure of Ethiopian export in terms of firm, product, and destination countries has remained stable and relatively unbending as compared to countries with similar stage of economic development Brülhart & Schmidheiny, (2018).

Firstly, Ethiopia, characterized by law rate of firm's entry in to exporting, and secondly, the average life span of a given firm product - destination connection is significantly below the international average. Because of lack of vitality and dynamisms in the past Capel of decays since 1991.

Brülhart & Schmidheiny, (2018) suggest that the Ethiopian exports lack dynamism because of an excessive foreign exchange and certain government intervention through forcing firms to maintain export link even at an operational loss due to political advantage. However, between 2009 and 2016, the average production in manufacturing sector reached to fivefold and average sales rises by 600 percent. Still, the average value of manufacturing export per firm, while increasing between 2009 and 2013 has subsequently declined. These rises enquiry about the potential reasons why manufacturing exports growth are insignificant and lack of determination.

From the world economic experiences, the business environment is rapidly changing due to the advancement of technology. Advancement of technology has also expressively affected the world international trade pattern. Globalization improves the free trade condition and the limitless transaction alters the dynamics of international spare of competition. It is also supported by the international trade theories adopted to the fast-changing nature of production process led to enhancement of technological capability (Fischer, 2012).

The exporting firms which have superior technological capability, in the global market can sheltered a better resources utilization by enhancing process innovation and can achieve higher differentiation to the user in diverse market environment (Yu, Richardson, 2015).

The firm's export performance was the most widely studied and researched but least understood and argumentative area in international marketing. The problem

among researchers was a different degree of conceptualization, operationalization, and measurement of export performance constructs. Thus mostly, the conclusion leads to inconsistency and conflicting results (Chitauro, 2021). In addition to this, most of the studies focus on the internal/ organizational factors that affect export rather than macro environmental factors. Therefore, in this research, liberalization, privatization and globalization as a macro business environment which affect the export performance of the Ethiopian manufacturing sector. Subsequently, the influence of LPG on the export performance of the firm's still unexploited area of research.

Then, the way how to manage the dynamics of marketing environment, national economic policy with respect to ownership structure of firm matters the success of the business irrespective of the level of development. In this research, therefore, investigate the effects of LPG as a multiple effect on international market competitiveness and firm's export performance with a particular interest in privatized manufacturing firms in Ethiopia.

## 3. Hypothesis of the Study

Hence, national policy and international business environment make organizational resources control and overall structural changes and make up of firms, it's necessary for firm's international market competitiveness and export performance. Given that, these opportunities are more likely to enhance firms export performance. Then, the hypotheses of the study can be stated as:

H1: Firms Liberalization measures (Law and order, Incentive schemes, and trade Openness) do not have a positive and significant effect on firm's competitive priority.

H2: Privatization measures (operational, organizational and structural measures) do not have a positive and significant effect on the firm's competitiveness priority.

H3: Globalization (Global market opportunity, global market threat and global market uncertainty) does not have a positive and significant effect on firm's international competitiveness priority.

H4: Liberalization measures (Law and order, incentive schemes, and trade openness) do not have a positive and significant effect on firm's export performance.

H5: Privatization measures (operational, organizational and structural) do not have positive and significant influences on firm's export performance.

H6: Globalization (global market opportunity, global market threat, and global market uncertainty) does not have a positive and significant effect on firm's export performance.

## 4. Research Methods

The researcher used a mixed research approach and data collected from 114 fully privatized manufacturing enterprises with random proportional sampling techniques. Those firms diverse in terms of their degree of production and marketing capacity, level of economic strength, and competitiveness Foreign Policy, (2001, 2003),

(Sciences, 2014). The key informant technique Campbell et al., (2017) was used to collect data. The total sample size was determined by using the sample size determination formula developed by (Cochran, 1963). The total sample size for the total number of firms included under investigation was calculated at 95% degree of significance as, 114 firms proportionally. The unit of analysis in this research is the manufacturing firms and primary data collected at the firm level.

## 4.1 Variables

Firm-level export performance studies, (Samiee, Chirapanda, 2019) use three way categorization, that is economic (sales related, profit related, market share related), non-economic (market related, product related and miscellaneous), and generic measures (degree of satisfaction, perceived export success and degree to which export objectives have been fulfilled). Other options are to divide (export) performance in to the three dimension of effectiveness, efficiency, and adaptability (Weinberg et al., 2001). The other sales-related measures, profit-related measures (Chitauro, 2021). All these measures can be dignified either objectively or subjectively, however, measuring export performance both objectively and subjectively is preferable. The multidimensionality of the concept and the choices for objective and subjective proxies clearly recur in this study. This entire factor taken in to account the researcher identify the research variables as shown in Table 1 below.

**Table 1. Research Variables**

| Research variables | | Indicators | No items | Label | Expected sign |
|---|---|---|---|---|---|
| Independent variables | Liberalization | Law and order | | LaO | (-) |
| | | Incentive schemes | | InsS | (+) |
| | | Trade openness | | TrdO | (+) |
| | Privatization | Ownership measure | | Om | (-) |
| | | Structural measures | | Sm | (-) |
| | | Operational measures | | Om | (+) |
| | Globalization | Global market opportunity | | GmO | (+) |
| | | Global market threat | | GmT | (-) |
| | | Global market uncertainty | | GmU | (-) |
| Predicted variables | Export Performance | Subjective Measures | Export satisfaction | | Esat |
| | | | Perceived export success | | PexpP |
| | | Objective Measures | Market share | | MakS |
| | | | Financial performance | | FinPerf |
| Mediating variables | Competitive Priority | Cost | | CotP | (-) |
| | | Flexibility | | FlxP | (+) |
| | | Quality | | Quatp | (+) |
| Control variables | | Firm age | | Fage | (+) |
| | | Management commitment | | MgtC | (+) |

*Source:* Author's own calculations.

To establish the relationship between variables, structural equation modeling (SEM) was used based on the assumption supported by the theory. Structural equation modeling is a combination of factor analysis and linear regression (Monroe, 2020). It helps to justify the acceptance and rejection of proposed hypothesis by analyzing  Structure Equation modeling tries to justifying the acceptance or rejection of proposed hypothesis by analyzing the direct effects and indirect effects of mediators on the relationship of independent variable and dependent variable. The unobserved factors were correlated with the explanatory variables in the model. To achieve the structural equation modeling, this study applies a methodology used in the previous research (Paiva et al., 2008). They recommended four-step data analysis, which were (a) Testing the assumption of multivariate analysis, (b) Carrying out an explanatory factor analysis (EFA) with Varmax rotation to examine the underlining dimension of the liberalization, privatization and globalization construct, (c) Appling confirmatory factor analysis (CFA) to test the measurement model extracted, (d) measuring the relationship between variable.

To perform multivariate analysis, first expected to test the major assumption related to sample size requirement, scale of measurement to the variables, normality, multi-collinearity of data (Hair et al., 2012). Regarding the sample size, as suggested by (Hair et al., 2012), adequate observation between 100 and 200, then in this research the sample size taken was 114 which is in the acceptable range and fairly adequate. The normality of the data measure based on the skewness and kurtosis of the study variables that is within the acceptable range ($\pm 1$), suggested by the distribution symmetry (Paiva et al., 2008), (Egger, Walker, 2019). The correlation among the variables were checked and found less than 0.9 which indicate there is no multi-collinearity problem (Hair et al., 2012). Those basic assumptions of the multivariate model were tested and ensured that there is no statistical violation to perform the analysis.

## 5. Findings

As explained, privatized export-oriented firms taken for this study. The descriptive study displays a summary statistic on the variables used, and the manufacturing categories are as presented (Table 2).

**Table 2. Descriptive Statistics**

| Types of manufacturing firms with respective categories | | | | |
|---|---|---|---|---|
| | Frequency | Percent | Valid Percent | Cumulative Percent |
| Food and Beverage Industries | 50 | 43.9 | 43.9 | 43.9 |
| Textile and wearing appeals | 17 | 14.9 | 14.9 | 58.8 |
| Chemical and chemical products | 9 | 7.9 | 7.9 | 66.7 |
| Nonmetal minerals manufacturing | 11 | 9.6 | 9.6 | 76.3 |
| Furniture and home Appliances | 9 | 7.9 | 7.9 | 84.2 |

| Types of manufacturing firms with respective categories | | | | | |
|---|---|---|---|---|---|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| | Tanning and dressing skins, leather manufacturing | 8 | 7.0 | 7.0 | 91.2 |
| | other, like batteries motor vehicles bodies and rubber, plastic products | 10 | 8.8 | 8.8 | 100.0 |
| | Total | 114 | 100.0 | 100.0 | |

*Source:* Author's own calculations.

From the table most of the cases, 50 from the food and beverage industries and the textile and wearing appeals represent 17 out of the overall samples respondents. These two types of manufacturing firms account for around 58.8% of the respondents in the study.

## 5.1 Exploratory factor analysis

To identify the dominant indicators as a requirement of the study, exploratory factor analysis (EFA) was used. Exploratory factor analysis with Varmax rotation was used because it helps to assess the unidiamintionality of the construct (Psomas et al., 2013). Exploratory factor analysis analyzed interrelationship among items on the measurement scale, and during the validation process, items with a factor loading of less than 0.5 were deleted (Talib et al., 2013). The reliability of the instruments was measured using the Cronbach's alpha coefficient (Posner, 2006). It is the most commonly used technique to measure internal consistency or homogeneity of scale (Talib et al., 2013). The alpha value of each factor were identified as Lib =0.890, Priv =0.882, Glob =0.863, ComPrio =0.889 and ExpPerf =0.819. These alpha value exceeded the minimum acceptable level of standard set, which is 0.7 (Posner, 2006). The result is summarized in the table below.

**Table 3. Instrument Reliability**

| | Cronbach's Alpha | Rho. A | Composite Reliability | Average Variance Extracted (AVE) |
|---|---|---|---|---|
| CompPrio | 0.889 | 0.905 | 0.928 | 0.722 |
| ExpPerf | 0.819 | 0.921 | 0.939 | 0.755 |
| Glob | 0.863 | 0.912 | 0.944 | 0.850 |
| Lib | 0.890 | 0.915 | 0.931 | 0.772 |
| Priv | 0.882 | 0.947 | 0.958 | 0.852 |

*Source:* Author's own calculations.

In this study, the slow parsimonious normed fit index for evaluation of the measurement model, during the estimation of the measurement model, an examination of the modification indices and standardized residuals exposed an opportunity for a better model fit. The convergent validity and discriminate validity were establishing by using confirmatory factor analysis. Convergent validity evaluated for the confirmatory factor analysis based on (1) factor loading (k), which is factor loading of all indicators should be more than 0.5 to be acceptable, (2) with regard to the composite reliability (CR), should exceed 0.70 and then (3) the average variance extracted (AVE) by every construct should be greater than 0.50 (Hair et al., 2012). The factor loading (k) for all value are were above 0.5, the composite reliability (CR) of every factor greater than 0.7 and the average variance extracted by every constructs is more than 0.5, which indicate a sound convergent validity of model as shown table (3). CR is a favorable indicator of convergent validity, considering the actual factor loading (k) instead of assuming that every item is fairly weighted during composite load determination. Composite reliability of all latent constructs is not within the acceptable limits but also exceed the benchmark of 0.7, it indicates measure of latent constructs is internally consistent. Discriminate validity of constructed measured based on the method designed by Fornell and Larcker (1981), as proposes, the squared correlation between any two construct should be less than the variance extracted by either of the individual constructs.

The KMO measures the sampling adequacy, which should be greater than 0.5 for a satisfactory factor analysis to further process. A very close to 1 indicates that, patterns of correlation are relatively compact, and so factor analysis yields distinct and reliable. The acceptable value is greater than 0.5as acceptable, but value below 0.5 lead to more data collection or think about the variables, which will be included in the model Kaiser (1974). However, values between 0.5 and 0.7 are good, but values above 0.9 are excellent. For this data, the value of 0.882 indicate that, the data is good, and then the factor analysis is appropriate. With respect to Bartlett Test of sphericity, which measure the strength of relationship between variables, from the data, it is significant associated with probability is less than 0.05 at a standard level of significances. The test for these data is 0.000 less than 0.05; it shows the significance of factor analysis.

**Table 4. Correlation Matrix**

|          | CompPrio | ExpPerf | Glob  | Lib   | Priv  |
|----------|----------|---------|-------|-------|-------|
| CompPrio | 0.850    |         |       |       |       |
| ExpPerf  | 0.168    | 0.869   |       |       |       |
| Glob     | 0.077    | 0.717   | 0.922 |       |       |
| Lib      | 0.653    | 0.097   | 0.038 | 0.879 |       |
| Priv     | 0.923    | 0.923   | 0.923 | 0.923 | 0.923 |

*Source:* Author's own calculations.

## 5.2 Confirmatory factor analysis (CFA)

The structural model shows the relationship between constructs, and this relationship helps to construct theoretical and logical reasoning. Logical reasoning helps to for judging the structural model in which endogenous variables determination coefficient (R2). Like multiple regression coefficient, the model quality should be based on the path coefficient's direction and significance level (Chin, 1998).

The indigenous determination coefficient (R2) shows the level of latent construct's explained variances and measure the regression coefficient's goodness of fit against the empirically obtained manifest items (Backhouse et al., 2003). The coefficient of determination is a normalized term that can have an assumed value between 0 and 1. Structural analysis and the picture depicted in fig (1) was present and helps to test hypotheses of the study and show the influence of liberalization, privatization, globalization on competitive priority and export performance. The figure laydown the projected standardized path coefficient and the variance explained by the model. With regard to model fit, statistical measures test the measurement model presented in table (5) similar to the hypothesized model.
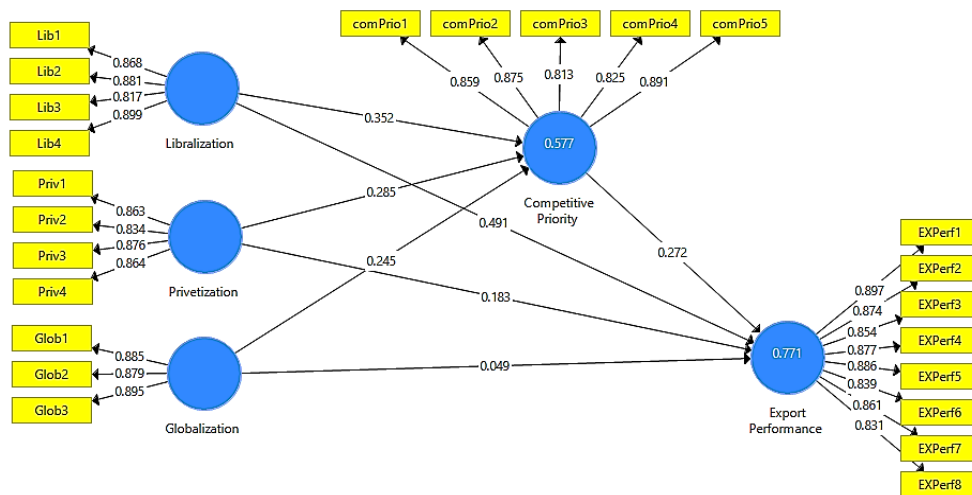
**Table 5. Path Coefficient**

|  | Original sample (O) | Sample Mean | Standard deviation | T Statistics (|O/STDEV|) | P Values |
|---|---|---|---|---|---|
| CompPrio -> expPerf | 0.456 | 0.462 | 0.126 | 3.630 | 0.000 |
| Glob -> CompPrio | 0.198 | 0.198 | 0.072 | 2.733 | 0.007 |
| Lib -> CompPrio | 0.418 | 0.420 | 0.062 | 6.777 | 0.000 |
| Lib -> expPerf | 0.121 | 0.120 | 0.063 | 1.909 | 0.057 |
| Priv -> CompPrio | 0.446 | 0.447 | 0.077 | 5.804 | 0.000 |
| Priv -> expPerf | 0.402 | 0.401 | 0.116 | 3.473 | 0.001 |

*Source:* Author's own calculations.

The overall structural model depicted that, an acceptable fit for the data and the model explained that 77.1% of the variances in the dependent variable, export performance of manufacturing firms explained by the detailed explanatory factors (LPG). The summery results of structural model analysis are show the standard regression coefficient of structural parameters that enable us to adopt on the validity of the hypothesis.

**Figure 1. SEM**



*Source:* Author's own elaboration.

The individual path coefficients represent the standardized Beta coefficients ensuring from the least-square method of estimation. In partial least square, goodness of fit for path coefficient can tested by asymptotic t-statistics. Paths, which are insignificant and contrary to the hypothesized direction, do not support rather paths that show hypothesis direction, which is empirically support, the proposed relationship between variables.

**Table 6. Total effect**

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (\|O/STDEV\|) | P Values | Decision |
|---|---|---|---|---|---|---|
| CompPrio -> expPerf | 0.456 | 0.462 | 0.126 | 3.630 | 0.000 | Rejected |
| Glob -> CompPrio | 0.198 | 0.198 | 0.072 | 2.733 | 0.007 | Rejected |
| Glob -> expPerf | 0.090 | 0.089 | 0.037 | 2.410 | 0.016 | Rejected |
| Lib -> CompPrio | 0.418 | 0.420 | 0.062 | 6.777 | 0.000 | Rejected |
| Lib -> expPerf | 0.311 | 0.313 | 0.067 | 4.656 | 0.000 | Rejected |
| Priv -> CompPrio | 0.446 | 0.447 | 0.077 | 5.804 | 0.000 | Rejected |
| Priv -> expPerf | 0.606 | 0.610 | 0.068 | 8.879 | 0.000 | Rejected |

*Source:* Author's own calculations.

From the relationship shown in table (6) besides examining the coefficient of determination ($R^2$) indicators of all endogenous variables, the change in $R^2$ also indicates whether an independent latent variable has considerable influence on the dependent variables. Similarly, the outmoded partial F-Test, Cohen (1988), settled the effect size $f^2$. Contrarily to the F-test, the effect size $f^2$ do not refer the sample at all, rather, to the basic population of analysis, so that, no degree of freedom needs to be considered.

## 6. Conclusions

The goal of this study is to look at the effects of dynamic macroeconomic variables (liberalization, privatization, and globalization) on competitiveness and export performance. Economic liberalization, the privatization of state-owned firms, and globalization all have a positive and significant impact on a company's export priority and performance. Economic liberalization, privatization, and globalization have a favorable and considerable impact on competitive priorities (cost, flexibility, and quality). International shoppers, on the other hand, are quality-conscious and adaptable in their purchasing habits. Our findings suggest that in the current globalization period, privatized exporting enterprises and countries with more liberalized economies are significantly more likely to be satisfied in terms of export satisfaction, market share, and profit.

Law and order, government incentive schemes, and general market openness all play a role in the overall market performance in the international market. In comparison to other incentive schemes, incentive schemes have the highest loading. In the Ethiopian context, the global market opportunity, the global market threat, and the global market uncertainty as indicators for global marketing, an opportunity cannot be exploited due to fear of challenges, and data shows that manufacturing firms in export are more affected by challenges than the benefit received from the opportunity.

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