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Research Paper

SMEs-Export Performance in Ethiopia: Exploring the Effect of Generic Competitive Strategies

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ABSTRACT

This study looks into how Ethiopian small and medium-sized enterprises (SMEs') export success is affected by generic competitive strategies such as differentiation and cost leadership. A structured questionnaire was used to gather data from 300 exporting SMEs using a cross-sectional survey design in line with positivism. A total of 210 valid responses were obtained for analysis. Validated scales were used to measure the constructs, and Partial Least Squares Structural Equation Modeling (PLS-SEM) was used for statistical analysis. Since, SMEs that successfully control costs can provide competitive pricing in international markets, the results show that cost leadership considerably improves export performance ($\beta = 0.626$, $p < 0.000$). However, the differentiation strategy has a smaller positive impact on export performance ($\beta = 0.223$, $p < 0.000$), indicating that SMEs may not have the resources to engage in the marketing and innovation needed for successful differentiation. The findings demonstrate the importance of cost control in enhancing export capacities while also showing that, despite their value, differentiation approaches need to be balanced in light of SMEs' constraints. By offering context-specific insights impacting various strategic approaches of SMEs in developing countries like Ethiopia, this study adds to the body of existing literature. To this end, Ethiopian SMEs should pursue a cost leadership strategy while building the capacity to capitalize on differentiation in niche markets, according to the practical implications.

Keywords: Export performance; differentiation strategy; cost leadership strategy, SMEs; and Ethiopia

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1. INTRODUCTION

Nowadays, the international market's competitive and economic environment keeps changing, which entirely diverted the eye of firms and made them strive hard on the way to maintain both physical and intangible resources to enhance their performance and build a competitive advantage (Mata & Aliyu, 2014). Like, the recent breakout of the pandemic also created a greater challenge on the operation and performance of manufacturing enterprise (Zelalem & Abebe, 2021). Dou to these changes in the international market many domestic SMEs are looking at the international market as an opportunity for more business success and sustainable growth. One of the most frequent and simplest used strategies for joining the international markets is exporting (Zhao & Zou, 2002). Although EXP is regarded as one of the key indicators of the success of firms' export operations, it also reflects firm-specific behavior in leveraging its resources and capabilities in an international context at a given point in time (Beleska-Spasova et al., 2011). But, attaining success in export markets is not a simple and easy business, mainly because of the multiple, diverse, and distinctive nature of the international market arena (Hassen et al., 2024).

Consequently, for researchers, public policymakers, and practitioners, the topic becomes very imperative in determining the driving factors that firms like SMEs ensure success in the international market environment. Prior investigations has been conducted to analyze different firm-level, industry-level, and international-level factors affecting the export performance of companies (Bodlaj et al., 2018; Ferreras-Méndez et al., 2019; Malca et al., 2019). This implies that the issue of export marketing has given significant attention to be more researched to distinguish important capabilities and resources for the survival and building sustainable export performance of firms which also have a critical role in the economic growth of many countries (Souse et al., 2008).

Even though the importance of previous studies in the area the issue of export marketing requires further extant research considerations, particularly from developing countries perspectives like:- Ethiopia. The majority of the previous studies (Chosiah et al., 2019; Nucci et al., 2020); Nahuway & Noermijati, 2018; Nolega et al., 2015) were conducted mainly focusing on investigating the internal factors of firm export determinants and looking at the impact's strategic orientations such

as cost leadership and differentiation generic strategies that can create benefit in the performance of a company's competitive advantage.

Creating a competitive advantage is one of the factors that contribute to a company's success and must be taken into consideration by managers and owners, especially when competing with other companies at international market level. The strategy of cost leadership and the differentiation strategy are the two main ones that can give firms a competitive advantage. It has been discovered that the primary organizational tools used to boost industrial performance and promote competitive advantages are generic strategies of cost leadership and differentiation. To avoid "the inherent conditions of different strategies," a company must choose between a cost leadership strategy and a differentiation strategy to achieve superior performance over its rivals (Porter, 1996).

Given the resource-based view of the firm (RBV), cost leadership strategy can be viewed as an important strategic capability and organizational resources that increase the efficiency and performance of firms (Barney, 1991). An understanding of the significant direct impact of cost leadership strategy on firm performance should facilitate the sustainable performance of the firm, which in turn should increase an organizational ability to achieve viable competitive advantage.

Therefore, it's pertinent to propose that cost leadership strategy sound motives for promoting and gaining competitive gain through enhanced organizational performance, (Waddell & Stewart, 2008). An SME producer that tends to be low-cost must find and exploit all sources that will ensure cost advantage. If a firm can do and sustain an overall cost leadership strategy then the chance to be above average performer in the industry by commanding prices at or near the industry average is obtained. The goal of the cost leadership strategy is to supply products or services at rock bottom cost within the industry to earn an appropriate profit for the corporation instead of operating at a loss and draining profitability from all market players.

On the other hand, following a differentiation strategy is offering products or services that are dissimilar and highly valued by the customers depending on their benefits and attributes from competitors in the market. Differentiation strategy enables organizations to concentrate more on customers effectively and secure butter performance Porter (1990). The international marketing arena demands very different products and services by its very nature. Besides the essence of differentiation strategy is satisfying these demands by making unique products and services and enhancing its performance at long last.

Many of the prior studies found a big association between differentiation strategy and organizational performance (Nandakumar et al., 2011; Allen and Helms, 2006). Furthermore, the investigation of (Acquaah and Yasai-Ardekani, 2007) indicated the viability and profitability of implementing a cost-leadership strategy, differentiation, and therefore the combination of the singular strategies. Moreover, organizations can build their competitive advantage by using a differentiation strategy more than the cost leadership strategy as confirmed by the studies (Nahuway & Noermijati, 2018; Carter and Pucko, 2005; Pelham, 2000).

However, the incremental performance benefits to firms implementing a mixture strategy don't significantly differ from the performance of firms implementing only the differentiation strategy. In addition, firms that implement a coherent competitive strategy in combination tend to realize considerable incremental performance benefits. Consistent with Murray (1988), each of those three generic competitive strategies may be a completely different way of making a sustainable competitive advantage. A firm must, therefore, choose between cost leadership and differentiation strategies or risk being "stuck in the middle" without a coherent strategy (Acquaah & Agyapong, 2015).

While previous research indicates that cost leadership and differentiation strategies positively influence export performance, the specific effects of these strategies in the context of Ethiopia remain underexplored. For instance, studies such as those by Rua et al. (2018) and Ayob and Senik (2015) have primarily focused on different geographical regions, highlighting the need for context-specific insights, particularly in emerging economies like Ethiopia. Small and medium-sized enterprises (SMEs) are vital to the economic development of Ethiopia, contributing significantly to employment and GDP. However, these firms often face challenges in competing in international markets. Understanding the strategies that can enhance their export performance is crucial. Thus, this article explores the effects of cost leadership and differentiation strategies on the export performance of Ethiopian SMEs, providing insights for business owners and policymakers.

Moreover, very limited studies have attempted to look at the combined effect of low-cost and differentiation strategy on SMEs' export performance, and very specially, no relevant evidence exists in Ethiopia. Most of the previous studies aimed to see the individual effect of generic strategies on SMEs' export performance. Yet again, to the simplest of the author's knowledge, there's no investigation showing how these competitive strategies simultaneously, enhance SMEs' export performance and ensure a competitive age, particularly in the context of Ethiopia. This

empirical evidence limitation concerning the association of generic competitive variables and SME export performance in Ethiopia was addressed by conducting this survey to fill these literature gaps. Thus, this study aims to ascertain the direct effect of cost leadership and differentiation strategy on SME export performance in Ethiopia. In particular, this paper has the following objectives:

1. To examine the effect of differentiation strategy on SME export performance.
2. To examine the effect of cost-leadership strategy on SME export performance.

2. LITERATURE REVIEW

For businesses looking to thrive in the market by gaining favorable positions, guaranteeing profitability, and preserving corporate sustainability, competitive tactics are essential (Porter, 1985). Businesses can get greater competitiveness and export success with the aid of a clearly defined competitive strategy. One important theoretical framework in strategic management is the Resource-Based View, which emphasizes the importance of a firm's distinct resources and capabilities in implementing strategies and maintaining a competitive edge (Barney, 1991; Brouthers, 2002; Yeniaras et al., 2016). These resources give businesses the ability to tailor their products to the demands of their clients and adjust to market developments, creating firm-specific distinction that makes it hard for rivals to match Brouthers et al. (2014). In the end, utilizing these special resources improves overall performance and competitive advantages (Yeniaras et al., 2016).

In different ways, cost leadership and differentiation initiatives have a greater impact on Ethiopian SMEs' export performance. It has been demonstrated that cost leadership, which is defined by operational effectiveness and lower expenses, improves market share and strategic performance, especially when paired with exploitative organizational learning, which emphasizes utilizing preexisting knowledge (Chung & Ho, 2021). Additionally, manufacturing industries should prioritize the adoption of environmentally-friendly supply chain networks, supplier relationships, and logistics management and more effective resources allocation to minimize unwanted costs (Zelalem & Abebe, 2024). However, differentiation strategies—which prioritize distinctive product offerings do not directly improve export performance, indicating that their efficacy may be contingent on other moderating factors like market conditions or managerial relationships (Chung & Ho, 2021). Notably, differentiation frequently relies on innovation capabilities (e.g.,

marketing or product development), which are resource-intensive and may be less accessible to SMEs than bigger manufacturing enterprises (Beshir & Zelalem, 2022). Additionally, cost leadership has positive consequences as well, especially when it comes to improving performance through innovation and risk-taking (Hossain et al., 2022).

Export success in emerging country markets is significantly impacted by the differentiation approach, according to Verreynne and Meyer (2011) and Aulakh et al., (2000). Additionally, businesses operating in emerging economies within a group of nations with comparable economic growth stages are better served by a differentiation approach.

Prior research by Rua et al., (2018) has demonstrated that differentiation and cost leadership strategies both have a favorable impact on export success, especially for small and medium-sized businesses (SMEs). Furthermore, research by Ayob and Senik (2015) shows that differentiation strategies may have a detrimental impact on exports to both developed and developing markets for SMEs in Malaysia, although cost leadership techniques are advantageous for exporting to developed nations. (Ryan et al. 2018), on the other hand, contend that while cost leadership initiatives have no direct impact on export performance in emerging economies, differentiation methods greatly improve market orientation and export performance.

The role of differentiation strategies in improving the export performance of small and medium-sized businesses (SMEs) in Mozambique was investigated by Navaia et al., (2023). They found that although these strategies have a positive effect on performance, positional advantages have a minimal mediating effect, indicating that SMEs may not be fully utilizing their advantages abroad. While differentiation techniques are advantageous, their efficacy may be adversely affected by greater competition, according to a follow-up study by Navaia et al. (2024), which examined how competitive intensity moderates the link between differentiation strategy and export performance. The impact of differentiation and cost-based leadership strategies on internationalization success in Portugal was examined by Crespo et al. (2020), who came to the conclusion that differentiation strategies improve international performance. Similarly, Mongkol (2021) discovers that superior company performance in Thailand is achieved by integrating differentiation tactics with cost-based leadership. When taken as a whole, these studies highlight the complex effects of strategic approaches on SMEs export success in various settings. The following theories were constructed using existing literature and theoretical frameworks related to export performance and strategic management. Thus, for this study, the following two consecutive research hypothesis was

developed bellow to test the effects of cost leadership and differentiation approach on outcome variables which is SMEs export performance.

H1: SMEs' export performance is positively impacted by the cost leadership approach.
H2: SMEs' export performance is positively impacted by the differentiation approach.

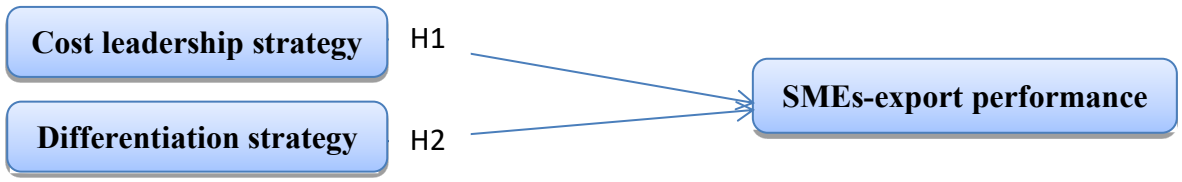

Figure 1: Conceptual framework

3. METHODOLOGY

This study utilized a cross-sectional survey design, aligned with a positivist approach, employing quantitative methods that have been previously validated in related research. The dimensions of the constructs were adapted from established scales. The sample consisted of 300 SMEs selected from the database of the Agency for Investment and Export Promotion of Ethiopia. A total of 240 completed questionnaires were received, with 30 incomplete responses excluded, resulting in 210 valid responses for analysis.

The relationships between differentiation strategy and cost leadership strategy as exogenous variables and export performance as endogenous variables were examined in the current study using modified items from earlier studies. Differentiation strategy and cost leadership strategy contracts were used to measure the competitive strategy dimension. Sales performance and total export performance which includes sales growth, market share, satisfaction with export volume, and competitive positioning about the industry sector average were used to measure performance objectively. A five-point Likert scale was used for every item. The following table summarizes the measurements of these parameters, which were modified from earlier research:

Table 1. Sources of Measurement Items

Variable category	Variables	No of items	Adapted from
Endogenous Variable	Export performance	7	Jantunen et al. (2005), Kuivalainen et al. (2007), Aulakh et al. (2000), and Zou and Stan (1998).
Exogenous variables (Competitive Strategies)	Differentiation Strategy	6	Aulakh et al. (2000) and Morgan et al. (2003),
	Cost leadership Strategy	6	Aulakh et al. (2000) and Morgan et al. (2003)

For statistical analysis, Partial Least Squares Structural Equation Modeling (PLS-SEM) was employed, utilizing SMARTPLS 3.2 software. This method was chosen for its robustness in handling non-normal data, as noted by Henseler and Chin, (2010). Furthermore, PLS-SEM is suitable for relatively small sample sizes, and in this study, the sample size exceeded the recommended minimum of 200 responses for structural equation analysis (Hair et al., 2012). The analysis included both the outer model (measurement model) and the inner model (structural model). Within the PLS-SEM framework, bootstrapping a resampling technique was utilized to test the significance of relationships, ensuring the robustness of the findings (Bollen & Stine, 1990; Efron, 1988).

The coefficient of determination (R^2) for the endogenous variables was used to explain the percentage of variability in the dependent variable attributable to the independent variables. R^2 serves as a good indicator of how well the observed outcomes are replicated by the model (Hair et al., 2010). Additionally, the effect size (f^2) was calculated to assess how exogenous constructs contribute to explaining the endogenous constructs in terms of R^2, highlighting the relative importance of the differentiation strategy and cost leadership. Finally, the standardized root means squared residual (SRMR) was employed to evaluate the model fit (Cho et al., 2022).

4. RESULTS

This study utilized Smart PLS 3.0 to perform Partial Least Squares Structural Equation Modeling (PLS-SEM) to validate the research hypotheses. The analysis focused on both the outer model (measurement model) and the inner model (structural model).

4.1. Measurement Model Test

The outer model assesses the relationships between indicators and their corresponding constructs. Key metrics for evaluation outer model included: Convergent validity assessed through the loading factor, Average Variance Extracted (AVE), and Composite Reliability (CR), and discriminant validity evaluated using the Fornell-Larcker criterion, which compares the square root of AVE with inter-construct correlations.

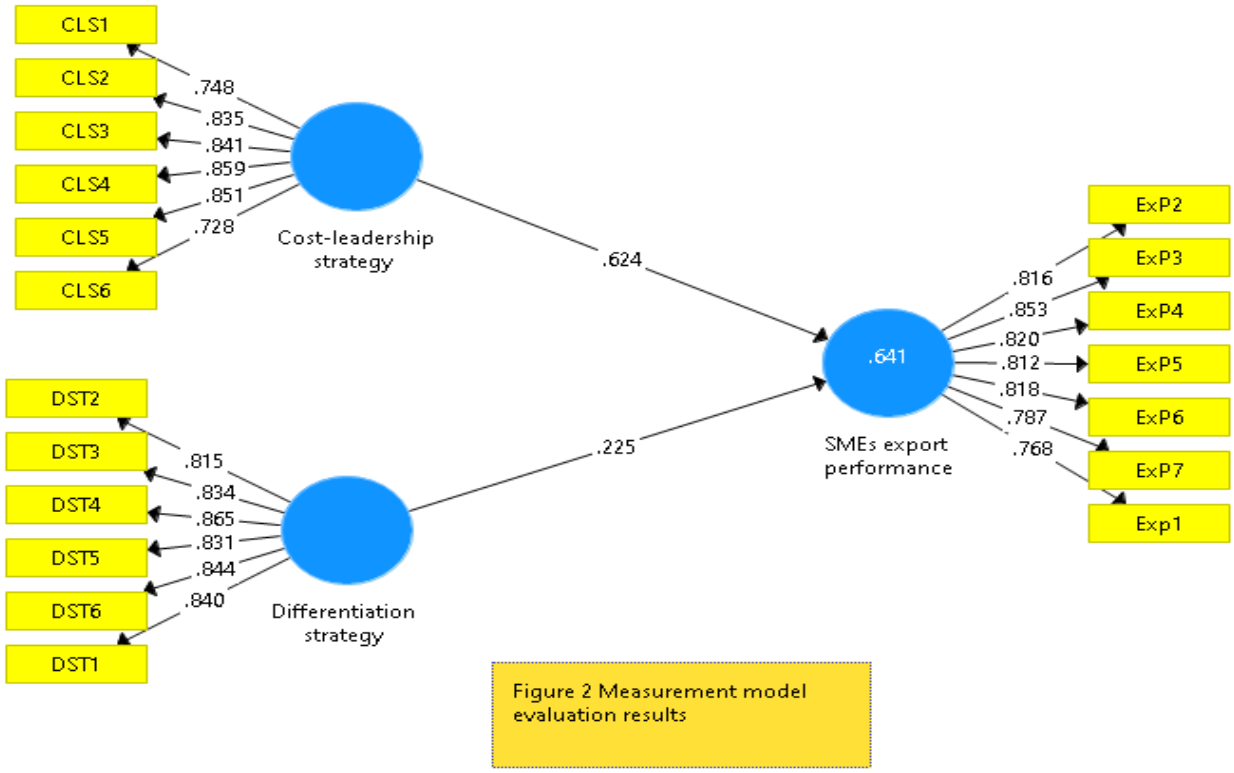

Figure 2: Measurement model evaluation result

Table 2 displays the analysis of internal consistency for the three constructs, as measured by Cronbach's alpha and rho_a, the reliability coefficients were found to be 0.896 for the cost leadership strategy, 0.916 for the differentiation strategy, and 0.913 for export performance, these coefficients exceed the recommended threshold of 0.70, as suggested by Hair et al. (2012), indicating high internal consistency for all constructs.in addition, the CR values significantly surpass the stipulated minimum threshold of 0.6 (Götz et al., 2009), underscoring the commendable level of internal consistency exhibited by all constructs.

Likewise, Table 3 displays the factor loadings of items obtained through bootstrapping with 5000 iterations. During the analysis, all items exhibited factor loadings equal to or greater than the

recommended minimum threshold of 0.7 (Gotz et al., 2009), confirming adequate convergent validity. Furthermore, the AVE for each construct markedly exceeds the anticipated minimum threshold of 0.5 (Gotz et al., 2009), thereby substantiating their convergent validity.

According to Fornell and Larcker (1981), each construct's square root of the AVE must be greater than the correlation coefficient with other constructs for discriminant validity to be present. The square root of the AVE for each construct is greater than the estimates of the inter-correlation between the latent constructs, as seen in Table 4, satisfying the requirement for discriminant validity. The correlation between the constructs in the off-diagonal position and those highlighted (diagonal values) illustrates this.

Table 2. Internal consistency analysis

Construct	Cronbach's Alpha	rho_A
Cost Leadership Strategy	0.896	0.900
Differentiation Strategy	0.916	0.918
Export Performance	0.913	0.914

Table 3. Factor Loadings, AVE, and CR

Construct	Items	Factor Loading	AVE	CR
Cost Leadership Strategy			**0.66**	**0.92**
	LCS1	0.748		
	LCS2	0.835		
	LCS3	0.841		
	LCS4	0.859		
	LCS5	0.851		
	LCS6	0.728		
Differentiation Strategy			**0.703**	**0.934**
	DS1	0.840		
	DS2	0.815		
	DS3	0.834		
	DS4	0.865		
	DS5	0.831		
	DS6	0.844		
ExP Performance			**0.657**	**0.931**
	ExP1	0.764		
	ExP2	0.814		
	ExP3	0.853		
	ExP4	0.821		
	ExP5	0.814		
	ExP6	0.818		
	ExP7	0.789		

Table 4. Discriminant validity (Fornell-Larcker Criterion)

	Cost Leadership Strategy	**Differentiation Strategy**	**Export Performance**
Cost Leadership Strategy	**0.812**		
Differentiation Strategy	0.715	**0.838**	
Export Performance	0.785	0.670	**0.811**

4.2. Structural Model Analysis

After confirming the measurement model, the inner model was evaluated to test the hypothesized relationships. Parameters such as coefficient of determination (R^2), path coefficient (hypotheses tests), and Q^2 and effect size (f^2) were estimated as suggested by (Hair et al., 2017).

R2 and Q2: this criterion specifies the predictive power of the model. R^2 is a criterion showing the influence of an exogenous variable on an endogenous variable. As the guideline of Cohen1988 suggested (R^2) the values for endogenous latent variables are assessed as follows: $R^2 < 0.02$ - Very weak, $0.02 <= R^2 < 0.13$ – Weak, $0.13 <= R^2 < 0.26$ – Moderate and $R^2 >= 0.26$ – Substantial. The outcome of the results suggests that an R^2 of 0.641 for export performance signifies substantial explanatory power from both cost leadership and differentiation strategies.

Table 5: Q^2 and R^2 coefficients for research variables

	Q^2_predict	**R^2**
SEMs export performance	.630	0.641

Effect size: The model's effect size (f^2) measures the accuracy with which the exogenous variables predict the endogenous variables. According to (Cohen, 1988) the effect size ranges between 0.02, 0.15, and 0.35. Where $f^2 = 0.02$ denotes a minor effect, f2 = 0.15 is a medium effect, and f2 = 0.35 is a significant effect. The effect size (f^2) was calculated to determine the strength of relationships. Table 6 shows that the cost leadership strategy demonstrated a large effect ($f^2 = 0.530$), while the differentiation strategy showed a small effect ($f^2 = 0.069$).

Table 6: Effect size (f2)

	SEMs export performance
SEMs export performance	
Cost leadership strategy	0.53
Differentiation strategy	0.069

Finally, the Q square value predictive relevance of the structural model was tested by calculating LV prediction summary (Q square) using the PLS predicts technique. The value of a Q square greater than zero indicates satisfactory accuracy. In this study, the values of Q square equal 0.630 for SEM export performance**.**

4.3.Hypothesis Testing Result

The SEM-PLS analysis robustly supports the hypotheses, indicating that both cost leadership and differentiation strategies positively impact export performance in SMEs, with substantial internal consistency and validity of the constructs involved.

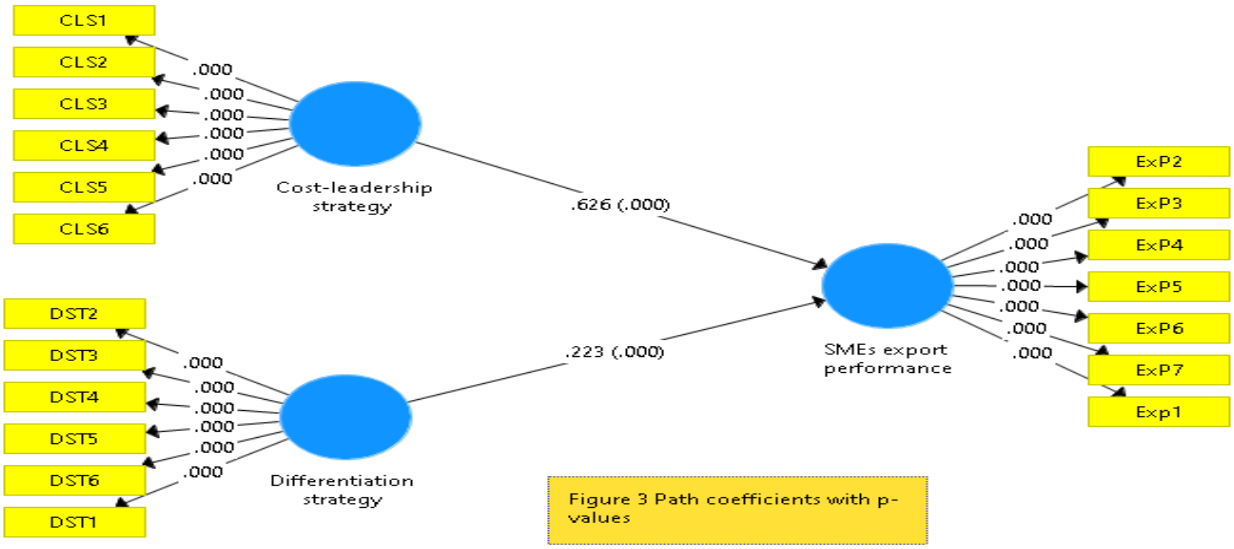

Figure 3: Path coefficients with p-values

The direct relationship between cost leadership strategy, differentiation strategy, and SEM export performance is significant. Table 7 depicts the outcomes of overall direct effects. It unveils that cost leadership strategy positively influences export performance ($\beta = 0.626$; $p < 0.000$) and also

that differentiation strategy has a positive impact on export performance (β = 0.223; p < 0.000), supporting hypotheses H1 and H2.

Table 7. Direct Path Coefficients

Path	Original Sample	Sample Mean	Std. Dev.	T-Statistics	P Values
Cost Leadership -> Export Performance	0.626	0.627	0.053	11.721	0.000
Differentiation -> Export Performance	0.223	0.224	0.057	3.923	0.000

5. DISCUSSION

The findings of this study provide significant insights into the relationships between cost leadership strategy, differentiation strategy, and export performance in small and medium-sized enterprises (SMEs) in Ethiopia. By employing SEM-PLS analysis, we established robust models that demonstrate the underlying mechanisms by which these strategic approaches influence export success.

According to the analysis, export performance is strongly and significantly improved by the cost leadership strategy (β = 0.626, p < 0.000). This result is consistent with prior studies (Chung & Ho, 2021; Rua et al., 2018; Ayob & Senik, 2015), which indicates companies that successfully control expenses may provide competitive pricing in global marketplaces, increasing their export competitiveness. In a similar vein, (Islami et al., 2020) verified a strong and direct correlation with company performance. Through process optimization and waste reduction, these companies can achieve a more favorable cost structure, which is crucial in the very competitive global market. Gaining market share, lowering their susceptibility to price changes, and eventually increasing profitability are all made possible by cost leadership for SMEs. These businesses can get a more advantageous cost structure by optimizing processes and cutting waste, which is essential in the fiercely competitive global economy. In contrast, cost leadership has little to no impact on export success in emerging countries, according to (Ryan et al., 2018, and Ayob and Senik, 2015).

On the other hand, although the differentiation method has a beneficial impact on export performance as well (β = 0.223, p < 0.000), the effect is less pronounced. According to this research, in the context of SMEs, differentiation may not be as successful in improving export performance as cost leadership, even though distinctive goods and services might draw in foreign

clients and support premium pricing. This may be explained by the resource limitations that SMEs frequently encounter, which may limit their capacity to make the marketing and innovation investments required for successful differentiation. This outcome confirms earlier research by Navaia et al. (2023). Additionally, Hossain et al. (2023) concluded that cost leadership continues to outperform differentiation techniques in terms of efficacy. Rua et al. (2018), conversely, contend that while cost leadership initiatives have no direct impact on export performance in emerging economies, differentiation methods greatly improve market orientation and export performance. Our results, however, contradict those of a study by Chung and Ho (2021) that found that differentiation strategies that prioritize distinctive product offerings do not directly improve export performance, even when they are linked to exploratory or exploitative learning. Furthermore, it contradicts the findings of Ayob & Senik (2015), who found that differentiation tactics had a detrimental impact on Malaysian SMEs' export success in both developed and developing markets.

6. CONCLUSION

In summary, this study has successfully illustrated how important differentiation and cost leadership initiatives are in affecting SMEs' export performance. The results show that, although cost leadership is still the most effective way to improve export performance, differentiation is also useful, albeit less so.

The suggested model's strong predictive ability highlights the need for SMEs to develop their export plans with a balanced approach. SMEs must continue to be flexible and sensitive to market demands as global competition heats up, making sure that their plans are in line with their capabilities and the state of the market. Overall, this research contributes to the understanding of strategic management in the context of international business, offering a comprehensive analysis of how strategic choices impact export performance. By leveraging the insights gained, SMEs can better navigate the complexities of international markets and enhance their prospects for sustainable growth.

Finally, the current study findings have significant ramifications for SME practitioners. Business executives who want to expand internationally should thoroughly analyze their strategic options. Putting a strong emphasis on cost-effectiveness can help improve export performance, especially in areas where prices are sensitive. Businesses shouldn't completely disregard distinctiveness,

though, as even a small positive influence can help with total export success, particularly if it fits in with consumer preferences and market trends.

This study has limitations even if it provides insightful information. Because SMEs were the focus of the study, the results might not apply to larger companies, which frequently have different resources and capacities. Future studies could examine how these tactics interact in various business situations or between larger companies. Longitudinal research may also shed light on how these methods' efficacy changes over time in response to shifting market conditions.

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