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FIRM RESOURCES AS DETERMINANTS OF INTERNATIONALIZATION OF MEDIUM SIZED FIRMS; EVIDENCE FRAOM KENYA

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ABSTRACT: *The purpose of the study is to assess the effects of firm resources on the internationalization of medium firms taking evidence from Kenya.Resource Based View (RBV) is the main theoretical framework that has informed the study. According to Barney (1991), the ownership of the unique resources is assumed to be the reason why Medium firms in the same industry and location respond differently to export stimuli; one initiating export business and is in a position to meet its export orders while another similar one is not. The argument is that the internal resources tangible or intangible are the main explanatory determinant of firm internationalization. Kenya Top 100 medium firms formed target population. The results of the study indicate that Medium firms that seek for internationalization should invest in developing rare and unique resources which are not imitable. The findings reveal that internal resources tangible or intangible are the main explanatory determinant of medium firm internationalization. The results of the study agrees with a lot of the existing literature on SMEs internationalization on that ownership of the unique resources is a major reason why firms in the same industry and location respond differently to export stimuli. To overcome the challenges of smallness, medium firms have to leverage on knowledge and network resources for they are rare, unique and are not imitable.*

KEYWORDS; Medium Firm, Resources, Internationalization

INTRODUCTION

Today, there is a creation of a market system in which national economies are integrated with each other through international markets. The internationalization of medium enterprises has significantly increased all over the world in the recent times (Etemand, 2004; Andersson, Gabrielsson & Wictor, 2004). Firms Internationalization is no longer an option but an economic imperative which has a major role in the competitiveness of SMEs in all economies (Rutashobya & Jaesson, 2004).The significantly increasing role played by Small and Medium Sized enterprises in driving economic development has resulted in a growing interest in the study of Internationalization of SMEs (Kula & Tatoglu, 2003). SMEs from the growing markets in Africa have internationalized into developed countries and similarly the developed countries have

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increased their business undertakings in developing markets as a result of globalization and decline in the market barriers as well as the attraction for foreign investment. (Cavusgil et.al., 2002).

Background

Medium sized firms are seeking for business opportunities in foreign markets owing to the increased competition in the domestic market (Hill, 2007; Loane & Bell, 2006). International expansion has become a common approach especially with the emergence of trading blocs like East Africa community (GoK, 2008) which is in tandem with Kenya's Vision 2030 (Kenya's long term development plan) which envisages the country becoming a globally competitive nation by 2030 (GoK, 2008); the achievement of global competitive status would require that in the interim the businesses in the country should consider internationalizing their operations. The understanding of the factors that influence internationalization would be important since many SMEs that pursue rapid internationalization experience very high failure rate and a lot of their challenges relate to liabilities of newness, foreignness and smallness (Zahra, 2005).

Medium Firms in Kenya

Medium Enterprises (MEs) contribute significantly to the Kenyan national economic growth and development (GoK, 1992; ILO, 1996). In 2008, the MSMEs sector contributed Ksh. 806,170 million of GDP which translated to 59% of the total GDP (GoK, 2009). MSMEs sector generated 390,400 thousand new jobs amounting to 87.6% of the jobs created in 2009 (GoK Economic Survey, 2010). In Kenya's economic survey of 2008, out of the total new jobs generated, Micro, Small and Medium enterprises (MSMEs) created 426,900 thousand jobs out of the overall 474.8 jobs created in Kenya (GoK, 2008); this constitutes 89.9% of the overall new jobs that were created.

In 2005, MSMEs in Kenya created 414,000 jobs out of the total 458,900 new jobs that were created; the total employment was 8,281,700 and out of this 7,478,600 was from the micro and small enterprises (GOK, 2006).These statistics strongly affirm that SMEs play a critical role in the economic development of the Kenyan nation; the realization of the county's vision 2030(development blue print) will strongly be dependent on investing in development of SMEs.
A lot of countries including Kenya cluster SMEs depending on the level of employment (Prasad, 2004). Kenya's sessional paper number 2 of 1992 as well as baseline survey of 1999 clustered enterprises as follows; Micro enterprises 1-9 employees; small enterprises 10-49 employees; medium enterprises, 50-99 employees; large enterprises, 100 employees and above (GoK, 1992; CBS/CEG/KREP, 1999).

International Trade in Kenya and East African Region

Economic growth of Eastern Africa region has been growing very well and it's projected to continue growing strong (IMF, 2013). International trade has immensely promoted economic growth in Kenya and the member states of East Africa region in general (East African Community Report, 2009). For many years, Kenya has relied on low-value primary exports, and imports non-food industrial supplies like fuel and lubricants, and other capital equipment that are high value which contributes to a huge balance of payment.

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Kenya has positioned herself to take advantage of her geographical location as a central hub in the region and spur the growth of the economy through regional integration and cross-border trade (Kenya Economic Survey, 2013). According to Kenya's Economic Survey Report, (2013) Rwanda, Ethiopia and Tanzania have been the fastest-growing economies in the region. Table 1.1 below shows the GDP growth in the EAC region.

Table 1.1: GDP growth in the East African region

Country	2008	2009	2010	2011	2012
Burundi	5.0	3.5	3.8	4.2	4.0
Ethiopia	11.2	10.0	8.0	7.5	7.0
Kenya	1.5	2.7	5.8	4.4	4.6
Rwanda	11.2	4.1	7.2	8.3	7.7
Tanzania	7.4	6.0	7.0	6.4	6.9
Uganda	7.7	7.0	6.1	6.7	2.6

Source: International Monetary Fund - IMF (2013)

Research objective

The main research objective which guided this study was to assess the effects of firm resource on the internationalization of medium sized firms in Kenya

Research hypotheses

H_0: There is no relationship between firm resources and internationalization of medium sized firms
H_1: There is a relationship between firm resources and internationalization of medium sized firms

The scope of the study

The study targeted the top 100 Medium sized firms in Kenya, the category of 2012. The key decision makers in these firms were the respondents i.e. the CEOs or senior managers. The rationale for the choice of the 'Kenyan Top 100' is mainly because the ranking is primarily done on the financial performance measures e.g. profit/earnings ratios and interest cover ratios. However, the ranking recognizes the importance of non-financial information like customer service, business ethics, job satisfaction and social responsibility as measures of company performance.

THEORIES

The theories that have been used in much literature to explain the internationalization process of medium firms include the stage theory, network theory, born global and resource based view (RBV). The stage theory generally argues that firms internationalize incrementally i.e. internationalization occurs in stages which follow a gradual sequence and they follow a linear trajectory (Coviello & McAuley, 1999; Hall & Cook, 2009). Network theory challenges the stage theory assumption that a firm must subdue the barriers in the international marketplace before engaging in the international business. The network theory postulates that internationalization activities happen through collaborative efforts and creating relationships between firm and the other actors in the market (Johanson & Mattsson, 1988; Johanson & Vahlne, 2003). International

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Entrepreneurship theory argues that some exceptional entrepreneurial characteristics make some SME to enter the foreign market at the early stages of inception as opposed to followings a gradual process. RBV theory is the main theory which guided this research and it's discussed below.

Resource Based View (RBV)

RBV perceives the firm as a bundle of unique resources and discourses the criticality of resource issues on performance of firms. The postulation of RBV is that a firm consist of varied resource that are immobile, rare, non-substitutable and non-imitable (Barney, 1991). These variables largely determine the differences among firms' performance and/or competitive advantage in the industry. The argument of this theory is therefore that with respect to firm internationalization, the mode of entry to be adopted, the foreign market to be targeted and the timing decision on export involvement is dependent on the SMEs internal resource capability.

RBV which is concerned with the development of the firm stipulates that universal development pattern and performance of the firm are determined by the internal resource endowment of the firm. Benito and Welch (1994), noted that irrespective of resource availability not been a primary emphasis of much of the inquiries on internationalization, it has however been displayed to be a significant subject facing businesses at various stages when operation mode choices are being considered. The explanation of a firm's resources and their influence on firm's conduct under the RBV forge the linkage to networks and entrepreneurial factors, which are viewed as resources for firms.

According to Barney, (1991) the ownership of the unique resources is assumed to be the reason why SMEs in the same industry and location respond differently to export stimuli; one initiating export business and is in a position to meet its export orders while another similar one is not. The argument is that the internal resources tangible or intangible are the main explanatory determinant of SMEs' internationalization. The unique resource variable which enables a firm to gain competitive advantage i.e. rarity, immobility, non-limitability and non-substitutability are causally ambiguous meaning their relationships can't be tested empirically.

RBV is extensively applied when investigating the success of SME internationalization. A lot of literature on SME internationalization agrees in that successful entry in foreign markets depends on SMEs internal resource capability and this view is based on the RBV theory. The literature collaborates in the argument that RBV considers the key decision maker's personality and the firm characteristics when examining SMEs internationalization as opposed to the stage theory which omits these factors (e.g. McDougall, P., & Oviatt, 2000; Mtigwe, B, 2005).

Criticism of Resource Based View

RBV has been strongly criticized (Priem and Butler, 2001; Williamson, 1999). One of the major criticism is that the resources are broadly categorized and this way not taking into account the exact sectors and industries as well as the characteristics of the specific environment where the firm's resources are the identification of the valuable resources that should be considered and secondly the characteristics of the environment where firm's resources will be positioned (Priem and Butler, 200la).

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RBV fails to establish the borders within which specific resources and capabilities are significantly important; there are many generalizations about the advantages of certain resources without addressing the setting within which these resources may be valuable to the firm (Miller and Shamsie, 1996). In the study by Miller and Shamsie, (1996) an argument is advanced about the advantages of better specifying the firm unique resources; those resources with the capacity to produce returns which are beyond normal. The distinction of the resources would be useful in ensuring that there is no vague characterization of firm resources and instead characterizes resources through an intensive cause and effect relationship (Black and Boal, 1994; Miller and Shamsie, 1996).

RBV is ignorant of both potential sources of extra resources and the influence of existing resources (Borch, Huse and Senneseth, 1999; E isenhardt and Martin, 2000; Foss and Eriksen, 1995). RBV should be more focused on the dynamic capability of the resource and the formation of competitive advantages which are new (Dunning, 2000). RBV does not address the settings in which different kinds of resources will possess the greatest value (Miller and Shamsie, 1996). Porter, (1991) argues that the worth of resources can be improved or diminished as a result of change in technology, the dynamics of customer needs and the nature of competition.
RBV lacks empirical testing especially the resources that are difficult to measure and operationalize for example tacit knowledge.

METHODOLOGY

'Kenya Top 100 medium' sized companies was the population for this study. The researcher targeted all the 100 companies in the category of 2012. The respondents were the founders, the CEOs and the senior managers. A structured questionnaire was adopted as the main research tool in the study. Pretesting of questionnaire was done in order to minimize the possibility of errors in the instruments as well as increasing the reliability of the data which was collected. The dependent variable i.e. internationalization of medium firms was measured by the use of transnational index; the relationship between home and foreign activities for any particular company. The independent variable i.e. firm resources were measured by the foreign sales as a percentage of total sales. Both Descriptive statistics and inferential statistics were used. The analysis was done by the use of statistical package for social sciences (SPSS) software version 21.

STUDY FINDINGS

Reliability analysis

Cronbach's Coefficient Alpha

Cronbach's Coefficient Alpha was used to test for the reliability of the instrument. The results are presented in the table below.

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Table 5.1 Reliability Statistics

Cronbach's Alpha	N of Items
.856	72

Source: Primary data 2013

The Cronbach's Alpha coefficient was 0.856. George and Mallery (2003), states that at least a value of 0.7 is recommendable and therefore the instrument was accepted as highly reliable.

Foreign sales as a percentage of total sales

The participants were asked to provide approximate foreign sales as a percentage of total sales. The findings are presented in the table below.

Table 5.2 Foreign sales as a percentage of total sales

	Frequency	Valid Percent	Cumulative Percent
Below 10 %	11	26.8	26.8
11 - 20%	11	26.8	53.7
21-30%	9	22.0	75.6
31-40%	7	17.1	92.7
41-50%	3	7.3	100.0
Total	41	100.0	

Out of the 41 firms that had internationalized, 22 (53.7%) had below 20% foreign sales as a percentage of total sales. Only 9 (22%) of the firms had 21-30 percent foreign sales as a percentage of total sales. Of the firms that participated in the survey, 7 (17.1%) had 31- 40% of their total sales coming from the foreign market while only 3 (7.32%) had 41-50%. Out of the 41 firms that had internationalized none had more than 50% of the foreign sales as a percentage of total sales. These findings imply that although there may be many firms that have internationalized their operations, they have done it in very small scale and therefore there still exists opportunities for further penetration.

How different resources influence the firm's foreign operations

The inquiry sought to establish the extent to which different resources influence internationalization a firm. A Likert scale of 1-5 was used to interpret the results of the study. The scores "no extent" and "little extent" were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale (1 ≤ little extent ≤ 2.5). The scores of 'moderate extent' were equivalent to 2.6 to 3.5 on the Likert scale (2.6 ≤ moderate extent ≤ 3.5). The score of "great extent" and "very great extent" were equivalent to 3.6 to 5.0 on the Likert scale. The results are presented in figure 7.3 below.

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Table 5.3: Resources and internationalization

	N	Minimum	Maximum	Mean	Std. Deviation
Financial resources	41	2.00	5.00	4.3415	.76190
Technological resources	41	1.00	5.00	3.7805	1.21475
Human resources	41	1.00	5.00	4.0976	1.13589
Physical resources	41	1.00	5.00	4.1463	.96335
Knowledge resource	41	3.00	5.00	4.4878	.63726
Networking resource	41	2.00	5.00	4.4390	.77617
New skills and competences	41	1.00	5.00	3.6829	1.27356
Valid N (listwise)	41				

Knowledge resource was considered to be the main resource (4.48780) which influences the firm foreign operation followed by networking (4.4390). Financial resources and physical resources were also considered as important with a mean score of 4.3415 and 4.1463 respectively. Technological resources and new skills and competencies were least considered with mean scores of 3.6829 and 3.7805 respectively. New skills and competencies were considered as average resource with a mean score of 3.6829. The results of the study agree with Cook, (2008) in his study which noted that failure to possess the suitable resources may suppress the progress of firms and prevent the shift to foreign markets. The knowledge resource is a very significant for medium firms since they don't own much financial and physical resource that are in possession of the large firms. The results support Resource Based View (RBV) theory (Barney, 1991) which argues that MSMEs should invest in unique resources which are rare, immobile and non-substitutable for this enables a firm to gain competitive advantage.

The resources obtained from foreign business development

The table below presents information on the resources obtained from foreign business development

Table 5.4: Resources obtained from foreign business development

Type of resource	Freq.	%
Capital and financial resource	27	65.85%
Physical resources (e. g. offices, plants, machines, equipment)	24	58.54%
Business reputation and status	14	34.15%
Foreign market information and knowledge	26	63.41%
General international business and management knowledge and skills	17	41.46%
Technology and technical know-how	14	34.15%
Foreign client/ customer/ other business contact networks	33	80.49%
Foreign sales and distribution channels	21	51.22%
New business ideas and opportunities	24	58.54%
Human resources	16	39.02%

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When asked what resources were obtained from foreign business development, the majority 33 (80.49%) considered foreign client and business contact network followed by capital and financial resource, 27 (65.85%). Physical resources and new business ideas and opportunities were also considered equally by 24 (58.54%) as key. Only a few respondents 14 (34.15%) viewed business reputation and status and technology and technical knowhow. Out of the 41 respondents, only 16 (39.02%) who viewed human resources as a resource that can be obtained from foreign business development.

Hypotheses testing

H_0: There is no statistically significant relationship between a Firm's resources and its ability to internationalize.

H_a**:** There is a statistically significant relationship between a Firm's resources and its ability to internationalize.

Table 5.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.793[a]	.629	.624	5.155

Source: Primary data 2013

a. Predictors: (Constant), Firm's Resources

Table: ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3203.834	1	3203.834	120.580	.000[a]
	Residual	1886.486	71	26.570		
	Total	5090.320	72			

Source: Primary data 2013

a. Predictors: (Constant), Firm's Resources

b. Dependent Variable: Internationalization

The coefficient of firm resources **(X_1)** has an estimated standard error of 5.155, F-statistic of 120.580 and an associated p-value of 0.00. The impact therefore of Resources at the company's disposal on the firm's ability to internationalize its operations is statistically significant at significance level α=0.05 since p<0.0. The H_0 is therefore rejected while H_a is accepted that there is a statistically significant relationship between Resources at the company's disposal and its ability to internationalize its operations.

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DISCUSSIONS

This objective was intended to establish how the firm resources influence the internationalization of medium sized firm in Kenya. The resources which were determined include; financial, technological, physical, knowledge, networking resources and new skills and competencies.
The study found that firm resources play a major part in the medium firms' internationalization process. The results of the study agree with Cook, (2008) in his study which noted that failure to possess the suitable resources in terms of skilled labor may suppress the progress of firms and prevent the shift to foreign markets. Knowledge resource was rated as the highest resource which influences medium firm foreign operation with a mean of 4.4878 followed by networking with a mean of 4.4390. The findings collaborate with the study by (Le Gales et al., 2004) which found that firms that are deficient in internationalization experience may not have the quantity and quality of resources that empower them to identify prospective associates and therefore their networks are lesser and fragile.

Both Financial and physical resources were also considered as important with mean scores of 4.3415 and 4.1463 correspondingly. New skills and competencies were considered as average resources with a mean score of 3.6829. Studies by (Holmund and Kock, 1998; Mughan et al, 2004) concluded that if the firms know what skills and competencies challenge they are experiencing, they may seek to deploy managerial talent which has that experience or grow relations with external providers to close the gap.

RESEARCH CONTRIBUTION

The study has stimulated debate regarding the assumptions from both stage theory (Johanson & Vahlne, 1977) and the RBV (Barney, 1991) which argue that the internationalization of a firm is achieved by its own individual efforts (e.g. through the process of resource mobilization and its internal capacity factors). This supports the need for future scholars to be cautious when applying either stage theory or the RBV theory to explain internationalization of medium sized firm in a developing country like Kenya. This is because the firms are heavily resource constrained, and internationalization can only be understood in detail only when it is considered in the light of intangible resources like network links and knowledge. For Kenyan medium firms to be successful in internationalization, they must consistently build internal resource capabilities. The research findings will inform the medium firm owners and managers about how they can leverage on resources which are rare, unique and non-imitable to move from the domestic market to the international markets.

CONCLUSION

This research was intended to establish how the firm resources influence the internationalization of medium sized firms in Kenya. The resources which were determined include; financial, technological, physical, knowledge, networking resources and new skills and competencies. The study found that firm resources play a major part in the medium firms' internationalization process. The results of the study agree with Cook (2008), in his study which noted that failure to possess

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FURTHER RESEARCH

A key direction for further research would be to extend the investigation to other levels e.g. Micro enterprises, SMEs and large firms. Further research could also be extended on other factors that contribute to internationalization of firms in Africa e.g. network relationships, key manager attributes, mode of entry etc. Future research could also focus on the challenges which small and medium firms experience in their bid to move from the domestic to the international market.

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