Networking as a Driver of Internationalization among Medium Sized Firms in Kenya

By

Dancan N. Irungu

Lecturer, School of Business and Economics
Daystar University
dirungu@daystar.ac.ke danirungu2010@gmail.com +254 721 829 435

And

Prof. Mwita Marwa

Associate Dean, PhD Programs
Dedan Kimath University of Technology
mwitamarwa@yahoo.com

ABSTRACT:

The purpose of the study is to examine the role of networking as the key driver of internationalization of medium firms. International trade has enormously contributed to Kenya’s economic growth. However, majority of Medium sized firms in Kenya remain focused on the domestic market despite the gains that internationalization is associated with.

Medium Enterprises have enormously contributed to the global economic growth and development over the years. Networks have been underscored in internationalization literature across different contexts as a principal feature that facilitates the process of MEs internationalization. Network theory is the main theoretical framework that has guided the study. The study used cross sectional research design. Kenya Top 100 Medium companies formed the target population for the study.
The empirical evidence has shown how networking drives the internationalization process of medium sized firms. The findings indicate that networking activities provide the necessary linkages which facilitate entry into geographically and psychically near markets. The study concludes that those medium firms that seek for internationalization should develop both formal and informal networks as enablers of accessing international markets.

**KEYWORDS:** Internationalization, Medium Sized Firms, Networking

1. **Introduction**

Networking has been underscored in much internationalization literature across different contexts as a principal feature that facilitates the process of Medium sized firms’ internationalization. Hankansson and Snehota (1989), preposition that: 'no business is an island' figuratively paints an image of the significant role which networking plays in business. Networks overtly expedite business growth and play a critical role in the SMEs development (Jahannison & Monsted, 1997; Zhao & Aram, 1995). A lot of literature contends that networking influences the firm expansion in developing countries or emerging markets (Ghauri, Lutz, & Tesfom, 2003; Zizah et. al., 2007). Networking links the customers, supporting agencies, governments, distributors and other firms and it impact on firm’s internationalization (Chetty & Blankenburg, 2007; Ford, 2002). Networking influences the decision to go international (Zizah et. al., 2007) and it provides the opportunities for firms to do international business (Mahajar & Carraher, 2006). The definition of internationalization is not uniform since there is a wide range of potential paths that a firm might take when creating an international presence (Welch & Luostarinen, 1988) and it cannot be explained by one theory but instead would require an integrated approach (Chetty & Campbell - Hunt, 2004). It’s a process through which a firm moves from operating in its domestic market place to international markets.
1.2 Background

1.2.1 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).

1.2.2 International Trade in Kenya and East African Region

International trade has enormously contributed to Kenya’s economic growth and the East Africa region member states in general (East African Community Report, 2009). However, the growth in the volume of exports of goods and services in Kenya has been slower than the imports. For example in
the year 2012, imports grew by 12.5% while exports of goods and services grew by 4.7%. Over the 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.

1.2.3 Internationalization of Medium Enterprises

Internationalization is a critical component of business strategy for many enterprises in the world (Melin, 1992). Medium enterprises are becoming progressively active in international markets over the last decades (Bonaccorsi, 1992; Oviatt and McDougall, 1994, 1999). The globalization of the world economy has largely contributed to the internationalization of SMEs especially because of the reducing trade barriers which different governments imposed globally coupled with the progress made in ICT and reduced transportation costs.

MEs internationalization has been significantly recognized as an important economic driver of Sub-Saharan Africa development and African continent at large. Firms are at increased risk of failure if they exclusively concentrate their operations on their local market due to the influence of globalization (Etemand, 2004). The change in globalization and technology has created a window of opportunity among the medium enterprises to participate in international trade. A plethora of studies have appreciated the increasing importance of medium enterprises in international trade (OECD, 1997; ENSR, 1997). However, the literature echoes the limited role of SMEs in international business activities owing to their inadequacies in financial, managerial and human resources (Buckley, 1989).

The interest towards internationalization of SMEs activities has developed mainly in those countries that agonize with deficits in the balance of payment thus creating the need to boost the
international vitality of SMEs with a possibility of developing into Multinational enterprises in the future (Ruzzier et al., 2006). The business opportunities all over the world are increasing than ever before due to the opening up of numerous rapidly growing emerging markets. However, these emerging markets pose challenges of internationalization to SMEs which have not had much internationalization experience as compared to multinational corporations and thus the inexperienced SMEs might have to take different international paths.

1.2.4 Top 100 Middle Sized Companies
Kenya’s Top 100 medium sized companies Survey (‘Top 100 Survey’) is an initiative of KPMG Kenya and Nation Media Group. The Survey seek out to identify Kenya’s fastest growing medium sized companies in order to display business excellence and highlight some of the nation’s most successful entrepreneurship stories (Top 100 Company Special issue, October 2012). To be suitable, participating companies must have been in business for a minimum period of three years with an annual turnover of between Sh70 million to Sh1 billion for the last three years; Ratios are submitted based on 3-year audited accounts; financial organizations are not eligible in this appraisal; not listed on the Stock Exchange (Top 100 Company Special issue, October 2012).

1.3 Study objective
The general objective of this study was to examine the influence of networking on internationalization of medium firms in Kenya.

1.4 Research hypotheses
The research was guided by the following research hypotheses;
H₀: There is no relationship between networking and internationalization of medium sized firms  
H₁: There exists a relationship between networking and internationalization of medium sized firms

1.5 Justification of the Study

The enquiry into the internationalization of medium sized firms is becoming a high priority area in research (Dana & Wright, 2009). Dana and Wright (2009), states that partnerships and networks among other micro environmental factors which influence MEs internationalization are important areas of current research. Networking speeds the firm’s internationalization capacity. The privilege of being in a pool of network relations enables the MEs’ to gain capacity to respond positively to the prompts of export initiatives and the firm can easily achieve internationalization. Globalization has increased the need for MEs to be internationally competitive irrespective of whether they are actively participating in international trade (Etemand, 2004; Knight, 2001).

2.1 Theoretical Review

A theory constitutes of a set of interrelated constructs, prepositions and definitions which presents a logical view of a phenomenal by specifying relations among variables with the purpose of explaining and predicting a phenomenal (Camp, 2010). In collaboration to this perspective, Cooper and Schindler (2006), sees a theory as a set of systematic definitions, concepts and prepositions that are postulated to clarify and predict a phenomenal. Some of the main internationalization theories that have been used to explain internationalization of medium firms include Stage theory, Network Theory, Resource Based View and International
Entrepreneurship. The key theory that informed this research is network theory and is discussed below.

2.1.1 Network Theory

Network theory originates from sociology and it is also known as the social capital theory (Portes, 2003). Johanson and Mattsson (1988), explored the influence of network relations on the firm’s internationalization based on the stage theory (Johanson & Vahlne, 1977). The Stage theory envisages that entering into international markets is single effort of the firm and thus the need to acquire knowledge and the requisite resources to internationalize; the firm develops and builds this knowledge and resources through its own effort. Network theory, on the contrary contests this premise by holding a view that internationalization is achieved through collaborative efforts and creating relationships between firm and the other actors in the market. The network approach postulates that internationalization of firms is achieved via affiliations of the firm to other counterparts (Johanson & Mattsson, 1988; Johanson & Vahlne, 2003) Johanson & Mattsson, 1988, 1999). The network viewpoint defines industrial markets as “networks of relationships between firms” (Johanson & Mattsson, 1988, p. 287).

Networking invalidates the need for the SMEs to have prior experiential knowledge and requisite resources before gaining entry into the international market; this is the claim of the stage model that the firm should possess these two attributes before contemplating internationalization. Networking enables SME to access many resources from the other actors both locally and abroad through association. The requirement of the psychic distance by the stage theory becomes irrelevant as a prerequisite for the choice of the foreign market since SMEs profits from network relations. Consequently, the variables like; the age of the firm, the firm size, the age of its owner manager or the key decision maker ceases to become determinants of firm internationalization.
Network theory postulates that it is the type and amount of network ties that a firm possesses which mainly determines whether the firms will entre foreign markets.

As a way to counteract stage model, the network perspective has made an attempt to explain internationalization of industrial firms through associations and relationships among firms and their equivalents (Johanson & Mattsson, 1988; 1992, 1995). Network model proposes two prerequisites for the process of internationalization: 1. the gradual acquirement of market knowledge and experience and; 2. learning from colleagues in a network (Elango & Pattnaik, 2007). To this extent, network model is therefore regarded as an extension of the Uppsala model because it outspreads the unit of analysis to the market level. Chetty and Campbell-Hunt (2003), claim that although firms gradually learn about international markets as they enter into these foreign markets, the process of learning happens in a network.

The focus of network approach is building relationships. The theory depicts the market as an organism of relations among a number of players comprising suppliers, customers, government, competitors, distributors, etc. (Coviello & Munro, 1995); these relationships are termed as a network. In this model, firm internationalization is understood as how the firm cultivates its position and creates relations with prospective associates in foreign industrial networks (Johanson & Mattsson, 1988). The model postulates that firms internationalize by creating and taking advantage of business networks. The network perspective has demonstrated to be significant in explaining the internationalization patterns of SMEs whose international involvement depend on the linkages with their other counterparts to a large extent (Andersson & Wictor, 2003; Axelsson & Easton, 1992; Madsen & Servais, 1997; McDougall, Shane, & Oviatt, 1994).
Different network structures have been proposed by different researchers. Chetty and Agndal, (2007), suggested that there are internal and external network structures; the internal network structure comprises of the links among staff members inside the firm, whereas the external network structure includes the relation between the firm and its outside stakeholders (e.g. the suppliers, distributors and customers). Boojihawon (2007), claim that there is also personal and inter-organizational network structure; personal network structure encompasses the owner-manager and his/her personal relationships (e.g. family members and friends), while the inter-organizational network relations comprises of the SME’s associations with external stakeholders (e.g. business associates, suppliers, customers etc.).

Gemser, brand & Scourge (2004), proposed formal and informal network structure; the formal network structure covers the affiliation between the firm and its suppliers and its customers, the informal comprises of the association between the owner-manager and his family members as well as his friends. Gorman and Evers (2008), suggested a contractual (economic relationship) and non-contractual network relationships structure. They claim that contractual relationships comprise of the relation between the firm and its exterior stakeholders e.g. the suppliers, the customers, the distributors and their agencies. Non-contractual relationships (also referred to as non-economic relationships according to these researchers) include the relations between the firm and its informal relationships e.g. family members and friends.

The network structures can be summarized as including two key sub-divisions; 1. The formal network structure and; 2. The informal network structure. Different researchers have used different terminologies but alluding to the same thing e.g.; contractual and non-contractual
relationships, (Gorman & Evers, 2008) and; internal and external networks, (Chetty & Agndal, 2007); all these broadly refer to the similar concept of formal and informal structure.

According to network perspective, firms internationalize their activities via networks which facilitate access to significantly important resources and to trade their merchandises (Johanson & Mattsson, 1988). The market position is critical to the network-based internationalization process, due to the accumulative nature of the events in the network. This implies that;

“…the firm’s activities in industrial markets are cumulative processes in which relationships are continually established, maintained, developed, and broken in order to give satisfactory, short-term economic return, and to create positions in the network, securing the long-term survival and development of the firm” (Johanson and Mattsson, 1988: p. 292).

Johanson and Mattsson (1988), prescribed four distinctive stages in internationalization process of the firm based on the degree of the internationalization of the market and the degree of the internationalization of the firm. These include; the early starters, the lonely international, the late starters and the international among others.

The early starter;

Early starters are characterized by none or few significant linkages with firms in the foreign market. The firm has limited knowledge about abroad markets and it cannot rely on domestic markets relationships to gain knowledge about foreign markets (Johanson & Mattsson, 1988). With deficiency of knowledge and inadequate experience in the foreign markets, possible internationalization pace of the early starters is gradual. Knowledge development is therefore the driver of internationalization of this type of firm and its approaches to international markets are
incremental. The Uppsala model supports internationalization of these firms by the indication that firms take incremental steps in the internationalization process.

The lonely international;
Lonely internationals are the firms that have formed networks with prospective associates in foreign markets and they have therefore gained more knowledge about the foreign markets. This experiential knowledge about foreign operations enables the firm to handle the new external environment appropriately. This also stimulates the firm to go worldwide and exploit their firm-specific assets in the foreign market. The internationalization speed of the lonely international is quicker than that of the early starter. For the lonely international to manage to exploit and uphold its competitive advantage, the firm is obligated to co-ordinate activities in the different country nets. The three dimensions of the internationalization process i.e. penetration, integration and extension should be considered (Johanson & Mattsson, 1988).

The late starter;
Late starters’ functions in a market situation that is already internationalized (Chetty and Blankenburg-Holm, 2000). Since the market is already internationalized, the firm can exploit a range of indirect linkages with foreign networks through its associates (Chetty & Blankenburg-Holm, 2000; Johanson & Mattsson, 1988). The firm lacks international knowledge and experience which makes it difficult to make entry into the foreign market where the competitors who went ahead are already enjoying benefits in a tightly structured net; the forerunners enjoy comparative advantage of market knowledge which this firm doesn’t have and it therefore becomes difficult to establish a position. Just like the early starter, the firm internationalization is a reaction to others as opposed to being proactive.
The international among others;
International among others operates in a scenario where both the firm and the environment where
the firm operates are characterized by high level of internationalization. The firm has a high
degree of international knowledge acquired from several foreign nets; the firm uses the network
positions strategically (Johanson & Mattsson, 1988). The high degree of internationalization
allows these firms to enjoy many benefits in their abroad business activities e.g. the firm may
spend little time to form sales subsidiaries. Johanson and Mattsson (1988), claim that the many
positions which the international among others inhabits in internationally linked networks give it
access and influence to external resources. For this kind of SMEs, the need for international
integration becomes paramount in order to co-ordinate the different networks profitably.

There is overwhelming evidence from previous applications of the network theory to SME
internationalization. Studies conducted in many countries confirm that networking plays
significant role in the internationalization of SMEs; New Zealand (Chetty & Holm, 2000);
Scotland (McAuley, 1999); and Ireland (Gorman & Evers, 2008). It has also been confirmed that
in developing countries such as in Asia, network theory improves the internationalization of
SMEs (Ghauri et al., 2003). Ghauri et al.’s (2003), study confirmed the significance of network
theory to SME internationalization in developing countries. Regarding the importance of
networking to internationalization, many researchers have contended that there are many benefits
that SMEs have derived through network relations (e.g. Coviello & Munro, 1997; Chetty &
Holm, 2000; Gemser et al., 2004; Ruzzier & Antoncic, 2007).
2.1.2 Criticism of network theory

The four dimensions used to categorize firms used are not distinctive and they partially overlap; For example, there is no rational explanation of how a firm moves from an early starter to international among others. The focus of the model is relationships in the networks but it overlook some significant factors inside and outside firms which affect the international participation of firms (Loane & Bell, 2006). Important variables like firm characteristics and owner-manager characteristics are not considered. Many researchers(e.g. Calof & Beamish, 1995; Chetty, 1999; Chetty and Campbell-Hunt, 2003) share the view that the probability is high that SMEs internationalization decision is heavily dependent on owner-manager’s personal attributes like; vision, knowledge, attitudes, and propensity to join foreign markets; the model however, ignores the significance of the key decision maker. This inadequacy is mainly censured by the literature of Born Global; it esteems decision-makers as a central factor in internationalization. The network approach to internationalization does not provide any clarification for the role that external variables play in the internationalization process. The model also fails to provide for the significance of social capital which is a key element since firms engage in social links with their associates e.g. the customers, agents, suppliers etc.

2.2 Empirical Literature

A study by Ojala (2009), on “internationalization of knowledge-intensive SMEs: The role of network relationships in the entry to a psychically distant market” emphasis the importance of network relationships in the internationalization of SMEs. The paper argues that networking provides the necessary linkages that will facilitate entry into psychically and geographically close markets. The study concluded that important relationships were strongly exploited or
established to achieve the market entry, and were in most of the cases, mediated relationships with non for profit government-owned consulting firms.

The findings of the study further established that network relationships between firms or individuals are key determinants of internationalization. The research questions in the study included; 1. What are the network approaches used by knowledge-intensive SMEs entering distant markets?; 2. What are the different types of focal relationships used by knowledge-intensive SMEs to enter distant markets?; 3. How is the market entry of knowledge-intensive SMEs into a distant market affected by different types of focal network relationships?

The research methodology used in the study was the multiple case study since the research questions were exploratory in nature. In this study, Finland was selected as the country of origin owing to its small and open economy with a very limited domestic market. Japan was selected as the country of entry. The study established that six out of eight case companies were vigorously establishing their networks to reach openings in the Japanese market. The companies took an active part and established networks with non for profit making government consultancy organizations. These relationships acted as principal relations for networking with distributors or customers in Japan and were the contacts of chief importance for these firms.

The study also found that from the eight case enterprises, the entry into the Japanese market was enabled by formal, informal, and mediated relationships. Further findings in the study indicate that different types of network relationships only had minimal effect on the choice of Japan as the target country. Six out of the eight firms studied had made a strategic decision to move in the
Japanese market devoid of any influence of network associates. Thereafter, they started to vigorously quest for available network relationships to gain entry into the market entry. The reason for this was that Japanese market was perceived as the major market for the firms’ niche products. This finding is rather inconsistent with some other studies and it also contradicts the assumption in the network model which argues that existing network relationships are the major motivator for market choice. Accordingly, the study reveals that when firms are gaining entry into attractive but distant markets for their products they actively seek for opportunities in the foreign markets and, afterwards, develop new networks or utilize existing networks to reach these opportunities as opposed to passively following their networks to foreign markets.

**Critique and gap**

This study is limited in that it focuses only on one industry and a single target country, this way the findings of the qualitative multi-case study done might not be entirely generalized. The Japanese market which was exclusively considered in this study might have had its own special characteristics different from the other markets. Similarly, the ICT sector has its own unique features due to the nature of its products which are intangible. Consequently, the results in this study need further justification allied to other sectors and markets. The study also solely investigated the firm’s main network relationships and it divided them into informal, formal and mediated relationships. Nevertheless, companies might still use other types of relationships in addition to their central and most significant relationships. The study seeks to fill the gap of focusing on one country and industry by targeting many industries from which top 100 companies operate. Consequently, a majority of companies targeted had operations in more than one country. This study has also targeted one hundred firms compared to the eight firms that
Ojara’s study had targeted. The relative importance of different types of relationships was not investigated and the author recommended a further study on the same; this gap is addressed in this study.

A study by Yee Kwan Tang (2007), on “Networking for the Internationalization of SMEs: Evidence from the Chinese Context” looked at the role and effects of networks and networking on the internationalization of SMEs. The research underscores the significant influence that firm networks have in driving internationalization. The study investigated networking behavior at the firm level as the main explanatory factor in the internationalization process of SMEs. The study also investigated the influence of the key decision-maker on the networking behavior of SMEs. The study addressed two main research questions which included; 1. How does networking behavior influence the internationalization of SMEs? 2. What and how does a key decision-maker characteristic affect the networking behavior of SMEs? The study adopted a mixed research method including both qualitative case studies and a quantitative survey. Both the quantitative and qualitative results complemented each other in providing comprehensive responses to address the research enquiries.

The findings of the study provided associations between the diverse behavioral aspects of networking, network resources and the internationalization of firms. The findings produced solid evidence that intentional networking behavior is significant in driving the internationalization of firms. The findings supported the argument that networks are not a natural to any firm, conversely, a firm's networking orientation and related efforts have influence on the outcomes of the network. The study also established that networks are not universally beneficial, but they may produce positive as well as negative effects on different firm activities. The study in
particular noted that a possible negative effect of networks is a possible loss of managerial control of own business.

The study findings also established that the key decision-maker, who possesses international business vision, existing personal networks and past industrial experience, is a central enabling force of rapid internationalization. However, this study developed important insight that existing networks of the key decision maker and his strongly embedded personal experience may lead to apathy of firm behavior because of the key decision-maker's tendency to rely on his past experience and hence impose constraints on adapting and adjusting the firm's networking behavior. This may potentially inhibit the flexibility and responsiveness of the key decision-maker in adapting the new dynamics in networking behavior which may be necessary to drive firm internationalization.

**Critique & gap**

The unit of analysis in this study is the firm in a network relationship, and the study collects information from only one side of the network relationship. Nevertheless, network exchanges involve two-sided interactions. In the quantifiable investigation of this study, results of network outcomes of some dimensions may not be fully revealed based on a one-sided standpoint which only measures the self-perceived efforts of the principal firm, while ignoring the other side's perception of the efforts in networking.

The study sampled firms with different ownership structures. Companies which comprise ownership structures which are different such as partnership, sole proprietor or public listed may adopt different decision-making approaches. The research did to take into consideration the
specific ownership context and the division of labor at the management level; consequently, it
did not consider involving multiple respondents as opposed to just the key decision maker.
The quantitative analysis was done in only two locations and the survey achieved a response rate
of only 38.4% in total. The study therefore did not gather data from wider spatial locations and
had a small sample size which made it difficult to enrich the representativeness and
generalizability of the results.

3 METHODOLOGY
The population for this study was ‘Kenya Top 100 medium sized companies in year 2012
category. A census method was used and therefore all the 100 companies were targeted. A
structured questionnaire was the main research tool in this study. The senior management team
from the targeted companies i.e. the CEOs and senior managers were the respondents for the
questionnaire. A 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. networking was measured by Network spread Index;
overall geographical spread of internationalized subsidiaries according to the number of
countries in which they are established. Descriptive statistics and inferential statistics were used.
The analysis was done by the use of statistical package for social sciences (SPSS) software
version 21.
4 FINDINGS

4.1 Response rate

Out of the 100 questionnaires administered to the ‘Kenya top 100 companies’ category of 2012, 73 (73%) were returned. Mugenda and Mugenda, (1999) states that 50% response rate is adequate, 60% is good and above 70% is very good. The response rate of 73% was therefore considered to be very good.

4.2 Cronbach’s Coefficient Alpha

To minimize the possibility of errors in the instrument used as well as increasing the reliability of the data collected, Cronbach’s Coefficient Alpha was computed by the use of package for social sciences (SPSS) to test the reliability of the instrument. The Cronbach’s Alpha coefficient for this study was very high (0.994) and the instrument was therefore accepted to be highly reliable as shown in the table 4.1 below.

Table 4.1 Reliability Statistics

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.994</td>
<td>72</td>
</tr>
</tbody>
</table>

Source: Primary data 2013

4.3 Demographic information

Out of the 73 respondents from the survey, 41(56.16%) were CEOs and 32 (43.84%) were managers. In all the sectors, a significant number of CEOs/managers were aged between 41-60 except for the ICT which had 7(35%) who were below the age of 40 years. Only 12 (16.44%) of the respondents had worked in their firms for less than 5 years as compared to 46 (46.57%) who had served for more than 11 years. The demographic information on age, position and length of
service shows that the respondents well understood their companies and were in good position to respond to the questions asked.

4.4 Foreign Sales as a Percentage of Total Sales

The participants were asked to provide approximate foreign sales as a percentage of total sales and the results are presented in the table 4.2 below.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 10 %</td>
<td>11</td>
<td>26.8</td>
<td>26.8</td>
</tr>
<tr>
<td>11 - 20%</td>
<td>11</td>
<td>26.8</td>
<td>53.7</td>
</tr>
<tr>
<td>21-30%</td>
<td>9</td>
<td>22.0</td>
<td>75.6</td>
</tr>
<tr>
<td>31-40%</td>
<td>7</td>
<td>17.1</td>
<td>92.7</td>
</tr>
<tr>
<td>41-50%</td>
<td>3</td>
<td>7.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

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.
4.5 Networking activities and internationalization

The participants were asked to indicate the extent to which the following statements describe their company’s network practices. The results are presented in table 4.18 below.

Table 4.3: Networking and internationalization

<table>
<thead>
<tr>
<th>Statement</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotes networking as a key activity to achieving foreign business development goals</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>3.6986</td>
<td>1.29834</td>
</tr>
<tr>
<td>Proactively participates in networking events for developing foreign business</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>3.3699</td>
<td>1.43862</td>
</tr>
<tr>
<td>Proactively approaches potential foreign business partners for developing business networks</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>3.3562</td>
<td>1.54892</td>
</tr>
<tr>
<td>Budgets and allocates resources specifically for networking activities for foreign business development</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>3.5068</td>
<td>1.53770</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>73</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A majority of the firms promote networking as a key activity to achieving foreign business development goals with a mean of 3.6986 followed by budgets and allocates resources specifically for networking activities for foreign business development (3.5068). That the firm proactive participation in networking events for developing foreign business was also rated above average with a mean of 3.5068. This finding agrees with the study by Yee Kwan Tang (2007), on Networking for Internationalization of SMEs which established that internationalized firms were keen to develop strategic relationships with their main network associates in order to continuously support their internationalization goals. In his study, Yee Kwan Tang (2007), concluded that firms entering foreign markets are proactive in exploiting and exploring
networking opportunities with regard to their business vision however, firms were also responsive and sufficiently flexible to act on coincidental encounters.

4.6 How business and personal network are used for foreign business development

The table below presents the findings on business and personal networks and how they influence internationalization of medium firms.

Table 4.3: business and personal networks and internationalization

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family, relatives, and personal friends of the key decision-maker</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>3.8767</td>
<td>1.30112</td>
</tr>
<tr>
<td>Past work and business contacts of the key decision-maker</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>3.9041</td>
<td>1.30346</td>
</tr>
<tr>
<td>Current business partners of the company</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>3.6986</td>
<td>1.41112</td>
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<tr>
<td>Agents and intermediaries</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>3.5753</td>
<td>1.41341</td>
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<tr>
<td>Domestic Trade Fairs</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>3.1644</td>
<td>1.56359</td>
</tr>
<tr>
<td>Foreign Trade Fairs</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>2.4247</td>
<td>1.33248</td>
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<tr>
<td>Local Trade and Industrial Associations</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>2.3288</td>
<td>1.19088</td>
</tr>
<tr>
<td>Company websites</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>3.0137</td>
<td>1.43849</td>
</tr>
<tr>
<td>Companies in the same industry (including competitors)</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>2.6712</td>
<td>1.45349</td>
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<tr>
<td>Local Government Departments</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>2.6027</td>
<td>1.30958</td>
</tr>
<tr>
<td>Local Academic, Research, and other Professional Institutes</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>2.7397</td>
<td>1.26960</td>
</tr>
<tr>
<td>Online marketplace</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>2.9726</td>
<td>1.40409</td>
</tr>
<tr>
<td>Public advertising media (e. g. magazine, TV, radio)</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>3.2760</td>
<td>1.34640</td>
</tr>
<tr>
<td>Foreign Trade and Industrial Associates</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>2.6164</td>
<td>1.35021</td>
</tr>
<tr>
<td>Foreign Academic, Research, and other Professional Institutes</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>2.5616</td>
<td>1.20169</td>
</tr>
<tr>
<td>Family, relatives, and personal friends of general staff</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>3.9315</td>
<td>1.13442</td>
</tr>
<tr>
<td>Past work and business contacts of general staff</td>
<td>73</td>
<td>1.00</td>
<td>5.00</td>
<td>3.9726</td>
<td>1.14228</td>
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</table>
The past work and business contacts of general staff was rated as the network with the highest influence at a mean of 3.9726 followed by network of family, relatives and personal friends of general staff with a mean of 3.9315. The networks of both key decision makers also played a critical role with a mean of 3.9041 followed by his family, relatives and personal friends with a mean of 3.8767. A study by Dana and Wright (2003) proposes that an entrepreneur whose contact networks are internationally spread is more likely to be involved in foreign business. Many researchers have considered networks formed by the decision-maker as an enabler to medium sized firms’ internationalization (Coviello & McAuley, 1999; Rundh & Fillis, 2001; Johanson & Mattsson, 1988).

Public advertising media and agents and intermediaries networks had a mean of 3.7260 and 3.5753 respectively. The study therefore established that the network with intermediaries acted as principal links for networking with distributors or customers and were the contacts of primary significance for internationalizing firms. Domestic trade fairs and company websites were slightly above average with a mean score of 3.1644 and 3.0137 respectively. The networks which had average influence on development of foreign business included; Local academic and research institutions (2.7397), Local government departments (2.6027), foreign trade and industrial associates (2.6164) and networks of companies in the same industry (2.6712). The foreign government department plays the least role with a mean of 2.2740 followed by local trade and industrial association and foreign trade fairs with means of 2.3288 and 24247 respectively. The empirical findings confirm that the government plays a very limited role in promoting networks which would facilitate MEs to internationalize. These findings are contrary
to the literature from the developed economies where the governments play a very significant role in promoting the internationalization process of MEs and SMEs.

4.7 Hypothesis testing

H₀: There is no statistically significant relationship between a Firm’s Networking and its ability to internationalize.

Hₐ: There is a statistically significant relationship between a Firm’s Networking and its ability to internationalize.

Table 4.4: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.533</td>
<td>.284</td>
<td>.274</td>
<td>7.164</td>
</tr>
</tbody>
</table>

Source: Primary data 2013

a. Predictors: (Constant), Networking

Table 4.5: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
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<td>1</td>
<td>1446.868</td>
<td>28.195</td>
<td>.000³</td>
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<tr>
<td>Residual</td>
<td>3643.452</td>
<td>71</td>
<td>51.316</td>
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<td></td>
</tr>
<tr>
<td>Total</td>
<td>5090.320</td>
<td>72</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

² Denotes significance at the .05 level.
Table 4.4: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
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<tr>
<td>1</td>
<td>0.533*</td>
<td>0.284</td>
<td>0.274</td>
<td>7.164</td>
</tr>
</tbody>
</table>

*Source: Primary data 2013*

a. Predictors: (Constant), Networking

b. Dependent Variable: Internationalization

The coefficient of Networking (X₃) has an estimated standard error of 7.164, F-statistic of 28.195 and p-value of 0.00. The effect of Networking on company internationalization is statistically significant at significance level α=0.05 since p<0.05. This led to rejection of the Null hypothesis that postulates a lack of statistically significant relationship between Networking and firm internationalization. The alternative hypothesis that there exists a statistically significant relationship between internationalization and Networking is accepted as it is supported by the results of analysis.

5 Research Contribution and Implications

The Medium firms should be eager to robustly explore opportunities to form partnership in foreign markets since the findings from the study showed that such partnerships would enable the success of their internationalization. For example, the study found that foreign partners have the potential to expose Kenyan domestic firms to international networks and to thereby supplement their resource capabilities. For Kenyan medium firms to be successful in internationalization, they must consistently build internal resource capabilities. Although the
external factors (e.g. unsolicited orders, government initiative to promote internationalization, pull forces etc.) may help promote internationalization, the firm must be prepared internally. For example, results from the regression analysis confirmed that on gaining access to network resources of the partners, the firms became internally prepared (e.g. with the right technology, the right machinery and equipment, adequate network partners, financial and capital resources). On attaining this internal readiness, there is superior capability for domestic firms to maximize on any opportunity that might arise and subsequently do international business.

5.2 Conclusion

The study established that internationalization opportunities are influenced by business and personal networks (both domestic and foreign) which the firm possesses. These findings agree with Johanson and Mattson (1988), which established that being linked to others enables MEs to gain knowledge about foreign markets. The outcomes also supports the findings of other studies (for example Dubin & Adrich, 1991; Tyrvainen, 2008) which argues that by having comprehensive networks, firms become knowledgeable of the pertinent information on foreign markets which subsequently creates opportunities for firms to internationalize. Networking experience of the firm was also established to be a significant factor in determining the internationalization of medium sized firms. The empirical findings on the networking activities which MEs pursue in order to internationalize revealed that a majority of the firms support networking as a fundamental activity to achieving foreign business development goals. The firms also budget and allocate resources specifically for networking activities for the purposes of foreign business development. The results of this study indicate that networking activities
provides the necessary linkages which facilitate entry into geographically and psychically near markets.

REFERENCES


