

# **KEY DECISION MAKER AS THE DETERMINANT OF INTERNATIONALIZATION OF MEDIUM SIZED ENTERPRISES: LESSONS FROM KENYA**

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## **Abstract**

*The main objective of the study is to determine the influence of key decision maker attributes on the internationalization of medium sized firms. Key decision maker attributes have been underscored in much internationalization literature across different contexts as a principal feature that facilitates the process of Medium Enterprises internationalization. Medium enterprises play a significant role in creating a strong economic base to any country since they greatly contribute to employment creation. There is overwhelming evidence from the literature that the key decision maker plays a huge role in the internationalization of Medium enterprises. International entrepreneurship theory is the main theoretical framework which informs the study. The main variables that are examined in the study include key decision maker education,*

*international experience and international business vision. Descriptive research design has been used in the study. The key CEOs of the Top 100 medium sized companies in the category of 2012 were the respondents of the study. The results of the study indicate that key decision maker attributes plays a significant role in the internationalization process of medium sized firms. The study concludes that the key decision maker is a major determinant of the firm's ability to grow from the domestic market and internationalize its operations.*

*Keywords: Internationalization, Key decision maker, Medium Enterprise, Growth, Vision*

## **INTRODUCTION**

Internationalization of firms 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, 2006).

There is overwhelming evidence from the literature that the key decision maker plays a huge role in the internationalization of SMEs. His attributes like international vision, experience and abroad experience, the level of education etc. all determines the ability of the firm to move from domestic to international market.

## **Background**

Internationalization of firms covers one of the broadest scope of researches done today (Ruzzer, Hisrich, & Antoncic, 2006) and it has been researched for more than forty years (Werner, 2000). There are many perspectives towards the internationalization of SMEs; the incremental perspective, rapid internalization, international entrepreneurship and international expansion through resource based and Networking perspective approaches. 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. Internationalization has been defined differently by different scholars in the world.

Key decision maker plays a significant role in the internationalization of firms (Ellis & Pecotich, 2001). With respect to the relationship between owner manager's characteristics and firm internationalization, numerous studies have looked at the key role of owner manager's in supporting small and medium enterprises internationalization. The key decision maker personal attributes plays a key role in the internationalization process of the firm (Johannisson, 1998; Johannisson 1988).

A lot of the existing literature on internationalization which is based on the western countries discusses the internationalization as if they are universally beneficial to all business activities of all firms alike (Barringer & Harrison, 2000; Loane & Bell, 2006). This assumption is not appropriate because geographical contexts and the social economic contexts of developed countries are different from those in developing countries (Ojala, 2009). Similarly, medium enterprises are different from large organizations in the type of ownership, business scale, the organization practices and management style (Loane & Bell, 2006). As a result, a research problem exists with regard to the process of the internationalization of medium sized firms in Kenya.

Medium sized firms are seeking for business opportunities in foreign markets owing to the increased competition in the domestic market (Loane & Bell, 2006). International expansion has become a common approach especially with the emergence of trading blocs like East Africa community which is in agreement with Kenya's Vision 2030 which envisages the country becoming a globally competitive nation by 2030; 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).

### **Objective**

The main research objective is to determine the influence of the key manager attributes on the internationalization of medium sized firms in Kenya.

### **Hypothesis**

H<sub>0</sub>: There is no statistically significant relationship between a Firm's Key decision maker's characteristics and its ability to internationalize.

H<sub>a</sub>: There is a statistically significant relationship between a Firm's Key decision maker's characteristics and its ability to internationalize.

## LITERATURE REVIEW

The literature largely agrees that key decision-makers influence significantly the firm's decision to internationalize (Andersson, Gabrielsson and Wictor, 2004). The internationalization of SMEs is an outcome of the key decision maker's perception (Makers Buckley, 1989). In Penrose (1995), seminal work, the owner manager is identified as the determining factor of the growth of the firm. The management services have been identified as key resources for small firms and these are characterized by the extremely personalized biases, preferences and attitudes of owner manager's (Bell, 1995; Reid, 1981).

Irrespective of the resource constraints that SMEs may have to go through, it's not possible to rationalize the exercise of entrepreneurial ability from an onlooker's point of view without understanding the owner manager. The key decision makers gifted with foresight, skill and imagination are most likely to succeed in making their firms do business in the foreign markets. Oviatt and McDougall (1997), have majorly criticized the internationalization model by arguing that it has ignored the impact of the key decision maker. They argue that the international business experiences most probable to impact on the decision to enter foreign are those of SMEs key decision makers.

The traits of international new ventures include; international vision, international experience, alertness to new business opportunities and the proprietary networks (Oviatt and McDougall, 2005). The literature broadly agrees that these characteristics differentiate between instant and rapidly internationalizing firms (Andersson & Wictor, 2003; Johnson, 2004; Madsen & Servais, 1997). The literature on the internationalization of new ventures postulates that the key decision-maker is positioned in a critical role that produces Internationalization patterns which are unique (Anderssona and Wictor, 2003; Madsen and Servais, 1997; Oviatt and McDougall, 2005). The specification of the key decision maker's crucial role in facilitating the internationalization of the international new ventures has provided new insights to the study of international business, and has stimulated the emergence of international entrepreneurship study.

There is inadequate application and understanding of how networks relationship affects internationalization principally with respect to the role of the networking behavior, the network actors, and the influence of key decision maker in the internationalization process of SMEs (Zahra, 2005). The consequence is that the SMEs policy measures that may be pursued in Kenya with regard to internationalization of SMEs will mainly be based on European theories and models which may not be relevant in the African context. Brush *et al.*, (2002) comment that the owner manager's characteristics determine his ability to create a network most useful to achieving the firm's purpose.

## **METHODOLOGY**

Cross sectional research design was adopted in the study. The population for the 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. Questionnaire gives the respondents autonomy to express their views freely and it's therefore objective. The senior management team from the targeted companies i.e. the CEOs and senior managers were the respondents for the questionnaire. There were both closed and open ended questions; a Likert scale was used where ratings were mainly generated for closed ended questions. For the study purpose, document analysis was used to collect secondary data from the existing records of the targeted firms.

A pilot study was conducted on ten Top 100 companies which did not feature in the category of 2012. This 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. Reliability and validity of the data was ensured in the entire data collection process. The analysis was done by the use of statistical package for social sciences (SPSS) software version 21.

## **ANALYSIS AND RESULTS**

### **Reliability Coefficient**

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 used and a value of 0.782 was obtained and therefore the instrument was accepted to be highly reliable. Content validity was used in this study and the extent to which a measure represented all the aspects of the study variables was determined.

### **Cross tabulations of industry against gender, position, age and length of service**

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.

### **Key decision maker industrial experience**

The respondents were asked how key decision maker industrial experience influenced internationalization of the firm. Out of the 41 firms that had internationalized, 29 (70.7%) either agreed or strongly agreed that the key decision maker has significant sales and marketing experience in the industry as compared to the domestic counterparts who were only 10 (31.2%) out of 32 local firms that participated in the survey . On whether the key decision maker has significant product knowledge and experience of the industry, 33 (80.5%) out of the 41 internationalized firms either agreed or strongly agreed while domestic firms were 19 (59.4%) out of the 32 firms that participated in the study. The empirical findings therefore suggest that the experience of the key decision maker influences firm internationalization.

When the respondents were asked whether the key manager has significant industrial experience, 29 (70.7%) from internationalized firms agreed or strongly agreed as compared to 14 (43.7%) from the local firms. Similarly, 12 (37.5%) from the domestic firms either disagreed or strongly disagree that the key decision maker had significant industrial experience a sharp contrast from their internationalized counterparts who were 5 (12.1%). Gaining of direct experiences through an individual presence in foreign marketplaces where an enterprise functions or is looking for operation is the principal means through which executives obtain and sustain knowledge of the firm's international undertakings. The organizations which possess varied managerial experience have the capacity to pursue advanced competitive strategies and identify more opportunities in internal markets (Westhead et al., 2001).

On whether the key decision maker has a significant foreign business experience in the industry, 35 (85.3%) out of 41 firms that had internationalized agreed or strongly agreed a sharp contrast from the 11 (34.3%) from the domestic firms. Out 32 domestic firms 19 either strongly disagreed or disagreed that the key decision maker has significant business experience in the industry; on the contrary, only 3 (7.3%) firms from the internationalized firms shared the same view. When the respondents were asked whether the key manager has established good personal reputation and recognition in the industry, 31 (75.6%) out of 41 that had internationalized and 22 (68.7%) out 32 domestic firms either strongly agreed or agreed. This revealed that key decision makers from both local and the internationalized firms established good personal reputation and recognition in the industry.

The findings of the study are consistent with a study by Musimba (2010), on "Determinants of Internationalization of Information and Communication Technology Small and Medium Enterprises in Kenya". The study discovered that the international orientations of an ICT SME's key decision maker are positively connected to the firm's internationalization with regard to market, product, time, operation mode, time and degree. The findings from this study

also recognized that international experience of managers is a resource which cannot be imitable and replaceable.

### Education and international background

The table below presents the results of key decision maker education and firm internationalization

Table 1: Education and international background

Key decision maker education	Yes		No	
	Loc'	Int'	Loc'	Int'
a. The Key Decision-maker has a University degree or above	14 19.18%	28 38.36%	18 24.66%	13 17.81%
b. If NO (to the –a- above) is he so knowledgeable about business operations and management issues	15 48.3%	11 35.5%	3 9.6%	2 6.4%
c. If YES (in –a- above), does it relate to the industrial knowledge and technology of the company?	5 11.9%	9 21.4%	9 21.4%	19 45.2%
d. If YES (in –a- above), is it a business or management related degree? (e.g. business administration, finance, marketing, human resources)	6 14.3%	10 23.8%	8 19%	18 42.8%
e. The key decision maker studied abroad	12 16.44%	27 36.99%	20 27.40%	14 19.18%
f. The key decision maker's education has given him broad international exposure	12 16.44%	31 42.47%	20 27.40%	10 13.70%

Out of the 73 firms that participated in the study, 28 (38.36%) of the key decision makers from the internationalized firms had university degree and above compared to 14 (19.18%) from the domestic firms. Out of the 31 key decision makers that did not have university education, 15 (48.3%) key decision makers from the firms that had internationalized are knowledgeable about business operations and management issues as compared to their domestic counterparts; 11 (35.5%). Similar to (Musimba, 2010) study on the determinants of internationalization of SMEs, the findings of the study suggest that the key decision maker's education determines the internationalization of the firm.

Out of the 42 key decision makers that had university education and above, 28 (66.6%) did not relate to industrial knowledge and technology of the company and only 16 (38.1%) had business or management related degrees. Out of the 73 firms surveyed, 39 (53.43) studied abroad as compared to 34 (46.7) who studied locally. Of the 39 key managers who studied abroad, 27 were from internationalized firms as compared to 12 from the domestic firms. Out of



the 41 firms that had internationalized, 31 (75.6%) of the key decision makers education had given them international exposure as compared to the domestic counterparts 12 (37.5%). The results of the current study are consistent with the wide empirical studies and theoretical frameworks which largely underscore the significant influence of key decision maker education background on proactive internationalization undertakings (Johanson, 2004).

### Pearson Correlation Coefficient

Table 2: Key decision maker and internationalization

		Internationalization	Key decision maker's characteristics
Internationalization	Pearson Correlation	1	.499**
	Sig. (2-tailed)		.000
	N	73	73
Key decision maker's characteristics	Pearson Correlation	.499**	1
	Sig. (2-tailed)	.000	
	N	73	73

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The Key decision maker's characteristics variable has a statistically significant correlation with the dependent variable (internationalization) since p-value of 0.00 is less than the critical value of 0.01. The magnitude of the correlation though is relatively small (0.499) when compared to others which implies that Key decision makers characteristics is only about 50% correlated with internationalization of a firm.

### Hypothesis Testing

H<sub>0</sub>: There is no statistically significant relationship between a Firm's Key decision maker's characteristics and its ability to internationalize.

H<sub>a</sub>: There is a statistically significant relationship between a Firm's Key decision maker's characteristics and its ability to internationalize.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.499 <sup>a</sup>	.249	.239	7.335

a. Predictors: (Constant), Key decision maker's characteristics



Table 4: ANOVA<sup>b</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1269.943	1	1269.943	23.601	.000 <sup>a</sup>
	Residual	3820.377	71	53.808		
	Total	5090.320	72			

a. Predictors: (Constant), Key decision maker's characteristics

b. Dependent Variable: Internationalization

The coefficient of Decision maker's characteristics ( $X_2$ ) has an estimated standard error of 7.335, F-statistic of 23.601 and p-value of 0.00. The impact of Decision maker's characteristics on company internationalization therefore is statistically significant at significance level  $\alpha=0.05$  since  $p<0.05$ . The  $H_0$  is therefore rejected while  $H_a$  is accepted that there is a statistically significant relationship between Decision maker's characteristics and the ability of a firm to internationalize its operations.

## DISCUSSIONS AND IMPLICATIONS

The study established that the key decision maker plays an important role in the internationalization process of a medium sized firm. This objective focused on two key decision maker attributes i.e. education background and the industrial experience. The objective sought to determine how key decision maker education background influenced the internationalization process of their firms. The empirical findings suggested that education of key decision maker played an important role in the firm internationalization process. From the 73 firms that participated in the survey, 28 (38.36%) of the key decision makers from the internationalized firms had university degree and above in contrast to their domestic counterparts that had 14 (19.18%). From the 31 key decision makers that did not have university education, 15 (48.3%) from the firms that had internationalized are knowledgeable about business operations and management issues as compared to their local peers; 11 (35.5%). The empirical findings therefore concluded that key decision maker education experience influences the firm internationalization process. However, Out of the 42 key managers that had university education and above, 28 (66.6%) did not relate to industrial knowledge and technology of the company and only 16 (38.1%) had business or management related degrees.

Out of the 73 firms surveyed, 39 (53.43) studied abroad as compared to 34 (46.7) who studied locally. From the 39 key managers who studied abroad, 27 came from internationalized firms and 12 from the domestic firms. Out of the 41 firms that had internationalized, 31 (75.6%)

of the key decision makers education had given them international exposure as compared to their domestic counterparts 12 (37.5%). The results of the study indicated that those managers who got education from abroad were better placed in facilitating their firms internationalize as opposed to their counterparts who got local education. However, the degree courses which the managers pursued did not influence firm internationalization. This is evidenced by the results that more than 50% of the key decision makers who had university education, their degrees did not relate to the firms operations and technology. Similarly, the managers with non-business education background still fared well in management and firm's internationalization.

The current study supports a study by (Musimba, 2010) which concluded that the more qualification and experience a firm manager has, the higher the tendency to internationalize; these findings are also collaborated by (Madsen & Servais, 1997). The more international oriented a company key executive is, the more probable that the firm will internationalize (Kundu and Katz (2003). The study also noted that; highly experienced business executives leverage on their general expertise when doing business in different country contexts since this knowledge is transferable from one country to another.

## **CONCLUSION**

This study enriches the Medium firms' internationalization literature by contributing to a deeper understanding of the internationalization process of Medium firms in Kenya. The conclusions from this research have inspired debate of some basic existing concepts in the internationalization research arena. The results of these will has not only added to the existing literature in the MEs internationalization but will also inform the practitioners of SMEs on the significant role that is played by the key decision makers in enabling their firms expand their operations from the domestic market to the international market. The upsurge of trading blocs like East African Community (EAC) will necessitate the key mangers in small and medium firms to position their firms in place that will favorably compete in a market characterized by intense competition as a result of the globalization and deregulation forces.

## **LIMITATIONS OF THE STUDY**

Although the study has made a significant contribution to theory, practice and policy on the internationalization of medium firms, the research findings and implications certainly have some limitations. For the sake of guaranteeing the manageability of the data collected, this study used survey questionnaire which relies on individual responses. The challenge of using such questionnaire is that it assumes that the participants will be accurate and honest in their responses.

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