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How Firm Size and Firm Age Characteristics Affect its StrategicAbility to Move from Domestic to Foreign Markets

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Abstract
The purpose of this paper is to investigate how firm age and size affect the small and medium firm to move from the local to international market. Literature has strongly suggested that the firm age and firm size some of the key factors that influence internationalization of medium sized firms for many developing economies though little research has been done regarding the same for developing economies. An in depth survey was conducted with 73 Kenya Top 100 medium companies targeting the CEOs and/or key executives by the use of a questionnaire instrument. The data was analyzed by the use of Statistical Package for Social Scientists (SPSS) Version 21. Both descriptive and inferential statistics were used to present data. The study found that if Kenyan medium sized firms would sustainably increase the size of their operation, as they age, this would increase theirreadiness to internationalize their operations. They would therefore achieve superior capability to maximize on any opportunity that might arise for doing business in foreign market.The study recommends that the Government of Kenya should provide a supportive environment that would enable medium firmsto grow and overcome the challenges of smallness which is a precursor to internationalization.

Key words; capability, firm size, firm age, foreign market, internationalization,

I. INTRODUCTION

Small and medium are critical to industrial development of sub-Saharan Africa (Fjose, Grunfeld, & Green, 2010) and they represent more than 95% of African businesses. In the Republic of South Africa, SMEs represent about 91% of the formal businesses and contribute approximately 61% and 57% to employment and GDP in that order (Berry, Von, Blonttniz and Cassim, 2002). SMEs contribute about 70% of Ghana's GDP thus making a significant contribution to the economic development by providing around 85% of the employment in manufacturing and accounting for 92% of the businesses (Kuffour, 2008; Abor & Quartey, 2010; Kuffour, 2008)

The significant contribution of medium enterprises has made the policy makers in different parts of the world to spur their economic growth by creating programs which promote entrepreneurship, micro small and medium enterprises innovation as well as export capabilities (OECD, 2010). Globalization has raised the need for SMEs to be internationally competitive irrespective of whether they engage in international business (Etemand, 2004; Knight, 2001). SMEs are to a great extent the key drivers for economic dynamism, flexibility and innovation in developed economies, developing countries as well as emerging economies (OECD, 2005).

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).

McCormic, (2004) observed that SMEs play a significant role in creating a strong economic base to any country since they greatly contribute to employment creation. The economic surveys in Kenya support this view to a very large extent. Prasad, (2004) argues that some of the indicators that can be used to measure the economic impact of SMEs could include contribution to employment, income, output, investment and the exports.

In Kenya, small and medium enterprises are classified as those businesses with annual sales turnover not exceeding KSh.150 million and employees not exceeding one hundred. SMES are further categorized as either small or medium firms; medium firms are characterized by an annual sales turnover of between KSh. 50 million to 150 million and 51 – 100 employees; the small firms have an annual sales turnover of between 5million to 50 million and they have 11 to 50 employees (GoK, 2007).

SMEs moving from domestic to international markets

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.

Key objective

To determine the influence of firm age and firm size on the internationalization process of medium sized firms in Kenya

Hypothesis

a. H_0:There is no relationship between the age of a medium sized firm and internationalization
   H_1: There exist a relationship between the age of a medium sized firm and internationalization
b. H_0: There is no relationship between the size of a medium firm and the capacity to internationalize
   H_1: There exists a relationship between the size of a medium firm and the capacity to internationalize

II. LITERATURE REVIEW

There are two major theoretical approaches that explain the concept of moving from the domestic market to international market i.e. internationalization phenomenal; the incremental and rapid internalization approaches. The most preferred theories in explanation of the internationalization of SMEs include; the stage/process theory, the network theory, international entrepreneurship theory and resource based view (RBV) theory.

The proponents of stage theory wereJohanson and Wiedersheim-Paul (1975),andJohanson and Vahlne(1977). This model is broadly applied in the internationalization of SMEs and it 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).

The Major assumptions of the stage theory relates to; the need for past experiential knowledge, the psychic distance and the incremental process of internationalization. The implications of these assumptions are that older and larger firms will be more probable to export. Similarly, the theory postulates that firms with senior managers in terms of age will have a higher probability to export and to develop a sustainable export business. The stage theory assumptions therefore contend that the factors which determine the internationalization of the firm include; the age of the firm; the firms individual effort to do international business; the size of the firm; the firm's prior knowledge in the local market; the size of the firm and ; the psychic distance of the foreign country. These assumptions infer that it is these factors which explain why some SMEs responds positively to international business opportunities while comparable others do not, notwithstanding the fact that they all function in the same sector with the market conditions which are alike.

The age of the firm and internationalization

The age of the Firm and its influence on internationalization

The empirical findings concerning the effect of firm age and its capability to internationalize vary. A study by McDougall *et al.,* (1994) investigated the behavior of new international venture firms and concluded that the new medium firms do not follow the gradualism assumption advocated by the stage theory of internationalization which argues that younger firms are not likely to internationalize. Empirical findings by Schulz *et al.,* (2009) and Zahra (2005), concluded that the unusual presence of small and medium-sized new firms in the international market at their commencement challenge the assumption of a positive effect of the age of a firm and its capability to internationalize.

A study by Moen and Servias (2002), which examined the export behavior of small and medium-sized enterprises in Denmark, France and Norway, found that there is no evidence to support the suggestion that foreign business operations decisions are influenced by the firm age. A study by Andersson *et al.,* (2004) which targeted small firms in Sweden examined a set of factors and their influence on the international activities of a small firm. Their study found

that the number of years a firm had existed was not a substantial determinant of the level of its internationalization. An empirical investigation by Bell (1995), which undertook a cross-national investigation in Ireland, Finland, Norway and Ireland did not support the gradualism assumption of internationalization as purported by the stage theory. A study by Wolff and Pett (2000), which used a sample of 157 firms from the USA and examined the association between the gradualism proposition and the export behavior of the SME found nothing to support the hypothesis.

Etemad (2004), argues that the forces of globalization have made the claim by stage theory of internationalization irrelevant with regard to the time which firms have to wait before they gain the necessary experience to enter foreign market. The author argue that although some firms may follow stages, the stages are now shorter and as a result of globalization, firms have access to endless varied information which counters the gradualism proposition in the stage theory; consequently, age does not affect firm propensity to internationalize . Similarly, a study by Hall & Cook, (2009) which used a UK sample, found that age was not a major predictor of firm internationalization. A study by Javalgi et al., (2000) that sampled 20,204, manufacturing firms from the USA investigated the effect of firm age on the propensity to internationalize and the results supported the position that both at the firm and aggregate level, the increase in the firm age of the firm increased its internationalization propensity. A study by Brouthers and Nakos, (2005) which used a Greek sample, established that elder firms were linked to greater level of internationalization activities than younger ones.

III. METHODOLOGY

Exploratory research design was used in this study. Exploratory research design is a type of design which is aimed at generating new insights and ideas about a specific problem. 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.Document analysis was used to collect secondary data from the existing records of the targeted firms. A survey questionnaire was used to collect data. The study used dichotomous scale, a 5 point scale and open ended questions to measure the ordinal data on the perceptual responses. The data was largely qualitative and was coded for the purposes of analysis. The research assistants were recruited and trained on the research tools and agreed on terms. The appointments with the respondents were made in advance before the administration of the questionnaire.

IV. FINDINGS

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.

Demographic Information

The gender distribution of participants is illustrated in the table 4.3 below

Table 1: Gender distribution of participants

	Male	Female	Total
Internationalized (Freq.)	26	15	41
Internationalized (%)	63.41	36.59	100
Domestic (freq.)	20	12	32
Domestic (%)	62.5	37.5	100
Total	46	27	73
Total	63%	37%	100

Out of the 73 respondents, 46 (63%) were male and 27 (37%) were female. Out of the 41 respondents from the internationalized firms, 26 (63.41%) were male and 15 (36.59%) were female. The male participants from the domestic firms were 20 (62.5%) and the female were 37.5% representing 12 firms. The results therefore show that in both domestic and internationalized firms, men dominated the top executive positions.

Firm specific characteristics

When the respondents were asked how different firm specific characteristics influence the decision of moving to the international market, the results are presented in the table 4.16 below

Table 2: firm specific characteristics

	N	Minimum	Maximum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic
Firm size	63	2.00	5.00	4.2222	.75015
Firm age	58	1.00	5.00	3.5345	1.31410
Firm resource	71	2.00	5.00	4.1690	.87808
Firm competencies	64	2.00	5.00	3.8906	.94478
Entrepreneurial orientation	62	3.00	5.00	4.2258	.71102
Corporate view	72	1.00	5.00	3.8333	1.10058
Value added	73	3.00	5.00	4.2329	.75499
Valid N (listwise)	57				

The firm sizes with a mean of 4.222 followed by entrepreneurial orientation with a mean of 4.2258 were considered as firm specific factors with highest influence. Similarly, the firm resources with a mean of 4.1690 and value added 4.2329 were also considered as important factors. Firm competencies had a mean of 3.8906 which was followed closely by corporate view with a mean of 3.8333. However, the firm age had a mean of 3.5345 and therefore was comparatively not considered as a major specific characteristic which influences firm internationalization. This empirical finding is supported by the born global theory of internationalization which argues that firms can participate in international business within very early years of their inception.

The result has generally shown that there is significant positive relationship between firm specific characteristics and internationalization of medium sized firms in Kenya. This findings agree with study by Caloghirou*et al.,* (2004) which argued that firm specific factors are most important than industry factors in explaining MEs internationalization

Inferential statistics

Table 3: Firm age and internationalization

		Internationalization	Age
Internationalization	Pearson Correlation	1	.607**
	Sig. (2-tailed)		.000
	N	73	73
Age	Pearson Correlation	.607**	1
	Sig. (2-tailed)	.000	
	N	73	73

Source: Primary data 2013

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

A correlation of about 61% was found between internationalization and the Age of a Company. At significance level 0.01, the correlation was also statistically significant since p-value 0.00 <0.01.

Table 4: Firm size and internationalization

		Internationalization	Size
Internationalization	Pearson Correlation	1	.882**
	Sig. (2-tailed)		.000
	N	73	73
Size	Pearson Correlation	.882**	1
	Sig. (2-tailed)	.000	
	N	73	73

		Internationalization	Size
Internationalization	Pearson Correlation	1	.882**
	Sig. (2-tailed)		.000
	N	73	73
Size	Pearson Correlation	.882**	1
	Sig. (2-tailed)	.000	
	N	73	73

Source: Primary data 2013

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

The Size of a Firm was found to be very highly (88%) correlated with its ability to venture into foreign markets. The correlation was also evidently significant at 0.01 significance level given that p-value 0.00<0.01.

Correlation Matrix Summary

Table 5: Correlation Summary

		Internationalization	Age	Size
Internationalization	Pearson Correlation	1	.607**	.882**
	Sig. (2-tailed)		.000	.000
	N	73	73	73
Firm's Resources	Pearson Correlation	.793**	.606**	.601**
	Sig. (2-tailed)	.000	.000	.000
	N	73	73	73
Key decision maker's characteristics	Pearson Correlation	.499**	.964**	.399**
	Sig. (2-tailed)	.000	.000	.000
	N	73	73	73
Networking	Pearson Correlation	.533**	.972**	.443**
	Sig. (2-tailed)	.000	.000	.000
	N	73	73	73
Age	Pearson Correlation	.607**	1	.528**
	Sig. (2-tailed)	.000		.000
	N	73	73	73
Size	Pearson Correlation	.882**	.528**	1
	Sig. (2-tailed)	.000	.000	
	N	73	73	73

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

Hypothesis 1

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

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

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.607[a]	.368	.360	6.729

a. Predictors: (Constant), Age

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1875.311	1	1875.311	41.414	.000[a]
	Residual	3215.009	71	45.282		
	Total	5090.320	72			

a. Predictors: (Constant), Age

b. Dependent Variable: Internationalization

The coefficient of a Firm's Age **(X_4)** has an estimated standard error of 6.729, F-statistic of 41.414and p-value of 0.00. That is to say the effect of a Firm's Ageon its ability to internationalize its operations was found to be statistically significant at the critical value $\alpha=0.05$ since the associated $p<0.05$. The Null hypothesis is therefore rejected while the alternative one accepted given that there is a statistically significant relationship between the number of years a given company has been in operation since its inception and its capacity to seek international expansion.

Hypothesis 2

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

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

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.882[a]	.777	.774	3.995

Source: Primary data 2013

a. Predictors: (Constant), Size

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3957.090	1	3957.090	247.922	.000[a]
	Residual	1133.231	71	15.961		
	Total	5090.320	72			

Source: Primary data 2013

a. Predictors: (Constant), Size

b. Dependent Variable: Internationalization

The coefficient of Company size (X_5)was found to have an estimated standard error of 3.995, F-statistic of 247.922 and an associated p-value of 0.00. The impact of Company size on its capacity to expand internationally is statistically significant at significance level $\alpha=0.05$ given that $p<0.05$. As a result, the Null hypothesis is rejected since the p value is less than the critical value. The accepted alternative hypothesis postulated that there exists a statistically significant relationship between company size and its ability to internationalize into foreignmarkets.

V. CONCLUSIONS

The study established that the coefficient of a Firm's Age(X_4)has an estimated standard error of 6.729, F-statistic of 41.414 and p-value of 0.00. The effect of a Firm's Ageon its ability to internationalize its operations was found to be statistically significant at the critical value $\alpha=0.05$ since the associated $p<0.05$. The Null hypothesis is therefore rejected while the alternative one accepted given that there is a statistically significant relationship between the number of years a given company has been in operation since its inception and its capacity to seek international expansion. This findings support a study by Brouthers and Nakos (2005), which used a Greek sample, established that elder firms were linked to greater level of internationalization activities than younger ones. A study by Javalgi*et al.* (2000) that sampled 20,204, manufacturing firms from the USA investigated the effect of firm age on the propensity to internationalize and the results concluded that the increase in the age of the firm increased its internationalization propensity.

The study found that the coefficient of Company size (X_5) has an estimated standard error of 3.995, F-statistic of 247.922 and an associated p-value of 0.00. The impact of Company size on its capacity to expand internationally is statistically significant at significance level $\alpha=0.05$ given that $p<0.05$. Accordingly, the Null hypothesis was rejected since the p value is less than the critical value. The alternative hypothesis was accepted which stated that there exists a statistically significant relationship between Company size and its ability to internationalize into foreign markets. This study relates to prior research in a number of ways; it collaborates with a study by Bonaccorsi (1992) on Italian firms which concluded that there is a positive association between the firm size and the propensity to internationalize. On the contrary, an empirical study by Hall and Cook (2009), which sampled 74 firms in the UK and investigated the influence of firm size on firm internationalization found no substantial outcomes to support the relationship. Similarly, a study by Calof (1993), examined the effects of firm size on internationalization and used 38 samples from Canada; the study concluded that firm size did not prevent the firm capacity to enter foreign markets; nevertheless, the study revealed that big firms had a higher propensity to internationalize.

The study concluded that firm size and firm age characteristics are very significant in promoting international business activities. The study therefore recommends intervention in creating supportive legal and regulatory infrastructure which would promote consistent growth of the firm size in order to promote medium firms participation in foreign trade.

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