DBA AFRICA MANAGEMENT REVIEW

VOLUME 10 NO 4

2020

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A Quarterly publication of the Department of Business Administration,
School of Business,
University of Nairobi

ISSN NO: 2224-2023

http://journals.uonbi.ac.ke/damr
September 2020 Vol 10 No 4 Pgs 126-137

ISSN - 2224-2023

DBA Africa Management Review

Received Date
24/06/2020
Accepted Date
16/11/2020

THE JOINT INFLUENCE OF FIRM RESOURCES AND ORGANIZATIONAL CHARACTERISTICS ON EXPORT PERFORMANCE OF SMALL AND MEDIUM MANUFACTURING ENTERPRISES IN NAIROBI COUNTY, KENYA

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Abstract

The main objective of this study was to determine the joint influence of firm resources and organizational characteristics on export performance of small and medium manufacturing enterprises in Nairobi County, Kenya. A conceptual model was developed, and corresponding hypothesis formulated to test the influence of firm resources and organizational characteristics on export performance. The study was anchored on three theories; the Resource Based Theory, Porters Theory of competitive advantage, and Firm Internationalization Theory. The research design was a cross-sectional survey of 265 companies in Nairobi City County, chosen from a population of 853 companies. The unit of analysis was the small and medium manufacturing enterprises involved in exporting. Out of the 265 firms sampled, 238 completed the questionnaire resulting in 89.1 percent response rate. Descriptive statistics were used to assess the key organizational characteristics whereas multiple linear regression model was employed in estimation. A five percent significance level was chosen when testing the significance of the coefficients as well as joint significance. The findings revealed that firm resources and organizational characteristics jointly influence export performance of SMEs in manufacturing. Based on the findings, the study recommends to the national and county governments to formulate legislation and policies that promote exporting by small and medium-sized enterprises in manufacturing, by reviewing required firm resources and internal firm characteristics for successful exporting. Also, the study suggests for increased government initiatives to address the challenges faced by manufacturing SMEs via enforcing legislation on local content for public projects, as well as establishing 'Buy Kenya, Build Kenya' policies in public procurement, research and development support in addition to increased contributions to special 'kitty' meant to support those engaged in manufacturing sector.

Keywords: Firm Resources, Organizational Characteristics, Small and Medium Manufacturing Enterprises, Export Performance

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Introduction

Exporting plays a crucial role in accelerating the growth and profitability of firms thereby enabling them to achieve a sustained competitive advantage. Existing research has certainly enhanced the understanding of firms' export performance, though; work in this field is still evolving. Exporting is conceptualized on the Firm Internationalization theory by Buckley and Casson (1976). Internationalization, is equally an act of businesses increasing involvement in international operations (Welch & Luostarinen, 1988; Yabs, 2010); it can take many forms, such as licence/franchise, indirect export, direct export, overseas subsidiary, joint venture, and foreign direct investment (Calof & Beamish, 1995; Lage & Montgomery, 2004; Li et al., 2013; López-Duarte & Vidal-Suárez, 2011). Exporting has become a significant internationalization strategy for both companies and national economies in the world markets (Koksal, 2006; Yabs, 2010). Since exporting is generally a less resource-laden approach compared with alternative foreign market entry and expansion modes, it requires minimum business risk, needs low commitment of resources, and offers high flexibility of movements (Neupert et al., 2006; Korez-Vide, 2007). Researchers have argued that exporting is a highly flexible and cost-effective means of gaining entry into new foreign markets. Exporting requires minimal resource commitments when compared to other foreign market entry modes such as licensing and foreign direct investment. The progress of a nation's exports has positive impact on the growth of the economy in total as well as on individual firms (Cavusgil & Nevin, 1981; Tesfoqm & Lutz, 2006). Exporting activities increase profitability, improves trade balances, and helps to deal with the problem of poverty and unemployment (Koskal, 2008; Karadeiz & Gocer, 2007). Secondly, exporting provides greater incentives for Small and Medium enterprises to invest in Research and Development, and innovation (Ganotakis & Love, 2012). Thirdly, in the process of exporting, Small and Medium Enterprises (SMEs) become exposed to superior skills and new technology which can ultimately boost productivity (Grossman & Helpman, 1991). Finally, exporting can be used as a stepping stone for future international expansion through foreign direct investment (Erminio & Rugman, 1996). Other researchers, for instance Palley (2011) contend that as a result of changed conditions in both emerging markets and developed economies, countries should reduce reliance on strategies aimed at attracting export oriented foreign direct investment (FDI), and institute a new paradigm based on domestic demand-led growth model.

Although the sequential approach to exporting is based on the classical ideas presented by Vernon (1966), Buckley and Casson (1976), it reaches its maturity through two parallel research trends developed at the end of the 1970s: The Uppsala School (Johanson et al., 1977), and the beginning of the 1980s: The innovation school (Bilkey et al., 1982). Both approaches agree in the fact that internationalization is an evolutionary process in which the firm develops progressive levels of commitment to international markets, as it moves ahead through a series of sequential stages, by making cumulative decisions (Root, 1987). Recent studies reveal that approximately half the studies in the export literature now adopt strategic and subjective export performance measures which has also been

verified .At firm level, a better understanding of export performance is important because exporting improves utilization of productive capacity, improves financial performance and competitive edge as well as providing a foundation for future international expansion (Lu & Beamish, 2001). There are still many firms in developing countries that do not export or contemplate doing so despite the argument that exporting does not require a lot of capital investment and has lesser financial and commercial risk as a mode of a foreign market entry mode compared to other forms of direct investment (Lages & Montgomery, 2005; Agndal & Chetty, 2007). These studies suggest that the value embedded in firms determine their export capability, which in turn influence their conduct of exporting activities and ultimately export performance.

Numerous efforts have been explored by policy makers to define the concept of SMEs in different economies. The various attempts have resulted into multi approach in understanding the concept of SMEs. The concept of SMEs however, varies from one country to another depending on the indicators used (Visser, 1997). The first criteria, based on the number of employees, defines SMEs as those enterprises below a certain number of workers (for example, can range from less than 10 to less than 50 employees). The second criterion defines the SMEs in terms of legal formality, and has been used to distinguish between the formal and informal sectors. However, the definition by Government of Kenya which is adopted by this study depicts SMEs as having less than 100 employees. In Kenya, the SME sector is considered as one of the major contributors to the economy by providing income and employment to a significant proportion of the population (Ngugi & Bwisa, 2013). The Kenya Economic Survey report (GoK, 2016) shows that the SME sector contributed 79.8 per cent of new jobs created during the year in Kenya. Under Vision 2030, SMEs have been identified as key economic pillars to spur growth and development because of the immense potential for creation of wealth and employment, and eradication of poverty. SMEs are involved in manufacturing and exporting, for instance, the growth in quantum index for manufactured articles increased by 28.6 per cent (Economic Survey, 2017). The manufacturing industry in Kenya is classified under three main sectors; namely, the agro-based industry sector, the engineering and construction industry sector and the chemical mineral industrial sector. The listed sub-sectors are fourteen, though the Sub-sectors which recorded growth were: meat and dairy products; canned vegetables; fruits; fish; oils; fats beverages; tobacco; petroleum and other chemicals among others (Economic Survey, 2018). Currently, it is estimated that the overall contribution to the GDP by this sector stands at over 12.5 per cent (Economic Survey, 2018; International Trade Centre, 2019). Unfortunately, a decreasing trend in terms of contribution to national economy by these firms has been predicted (Kaplinsky & Morris, 2019). It is evident that Kenyan SMEs in manufacturing continue to face challenges related to internal and external environment, financing, marketing among other key barriers (Gathungu, Aiko, & Machuki, 2014). Empirical evidence on the strengths and weaknesses of Kenyan SMEs can help identify opportunities to improve their competitiveness so they can increase sales at home and abroad (International Trade Centre, 2019). This study seeks to establish the joint influence of firm

resources and organizational characteristics on export performance of manufacturing Small and Medium Enterprises (SMEs) in Nairobi City County. The study tests the following hypothesis; firm resources and organizational characteristics have no joint influence on export performance of Small and Medium Manufacturing Enterprises in Nairobi City County, Kenya.

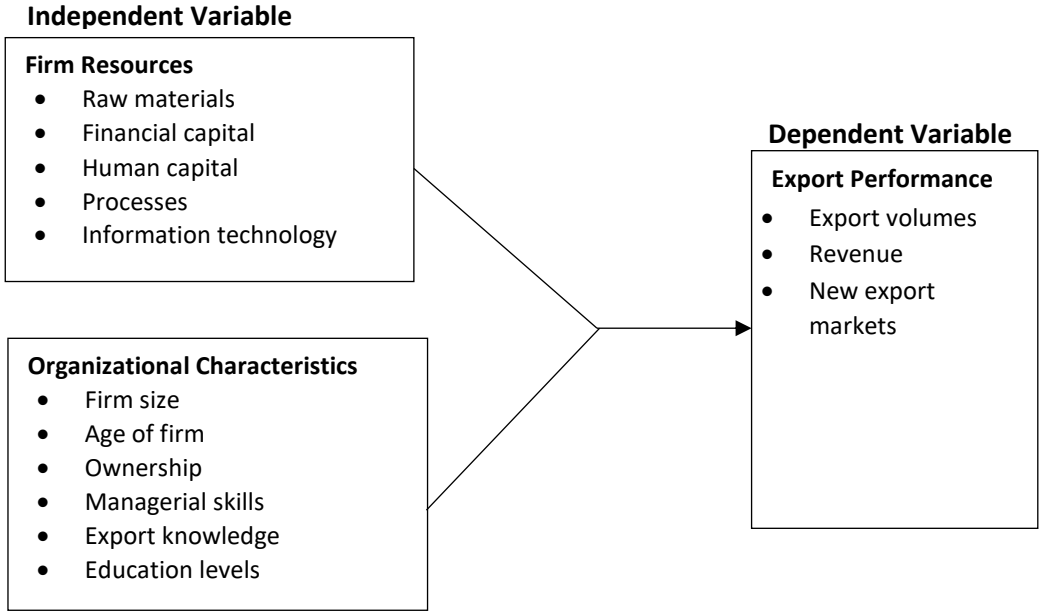
Literature Review

Theoretical underpinnings of exporting are rooted in several theories. First, Resource Based View (RBV) theory which suggests that financial, social or human capital, each with a particular role in an organization's performance and presents a challenge to the firm when constrained (Barney, 1991). Second, firm internationalization Theory which argues that exporting is a significant strategy for internationalization on worldwide markets for both companies and economies (Buckley & Casson, 1976) and third, Porter's Theory on competitive advantage which suggests that competitiveness as a function of four main determinants: factor conditions; conditions of demand; associated and supportive sectors; and strong policies, structures, and competition. While these factors impact the presence of the competitive advantage of a country, their nature means that they are more specific to a particular industry than they are typical of a country (Porter, 1985). Even though, the existing theories provide many important and valuable insights into the multi-dimensional phenomenon, the resulting picture is fragmented (Coviello & McAuley, 1999). On the other hand, researchers such as Kibera (1996) have identified numerous organizational characteristics and perceptions which may shed light on their relationship with export performance of the firm; however, the literature on the subject matter is still characterized by the lack of consensus among scholars as to what constitutes the organizational factors in determining exporting and what specific dimensions are influenced by management (Leonidou et al., 2011). Further, a number of determinants are found that can be classified as management skill-based determinants of export performance. These include managers' experience, education level, and number of employees, age, and ownership of the firm.

Knowles et al. (2006) contend that decision-makers of successful exporting firms were much more likely to have competences such as foreign language skills. According to a study by Karadeniz and Göçer (2007) such skills were often at a higher level for successful exporters than those of less successful exporters, at the same time presenting an international mindset that is conductive to successful internationalization. A study by Zou and Stan (1998) had established mixed views; firm size has positive effects on export performance if measured in terms of total sales and has negative effects based on export profits if measured by number of employees. Other previous studies, for instance, Aaby and Slater (1989) posit that firms' export market knowledge is an important competence and positively influences export performance. However, Hart et al., (1994), and Toften (2005) established a weak correlation between export performance and export market knowledge. Some studies, such as Lages and Montgomery (2005) based on Portuguese firms, had concluded that some firm characteristics such as, labour productivity, export orientation, and concentration, and firm size are important determinants of firm's export intensity. Accordingly, the central proposition in this

study is that export performance correlates with firm resources, and organizational characteristics among them, vital elements, such as, firm size, age of the firm, ownership and management. From the literature, two prominent factors, that is, firm resources and organizational characteristics are jointly linked to export performance. The study tested the individual influence of each of the two variables, and the eventual joint effect on export performance is essential. The interrelationships are captured in Figure 1.

Figure 1: Conceptual Framework



Source: Author

Methodology

The study employed cross-sectional survey that focused on Small and Medium Manufacturing Enterprises located within Nairobi City County that undertake exporting activity. The target population comprised of 853 firms registered with KAM, the list was divided into six main sub-sectors by the researcher. Stratified random sampling was used by the researcher to acquire the sample per each sector. A sample size of 265 SMMEs was determined using the Krejcie and Morgan Table (1970). The research targeted the executive management, precisely the Chief Executive Officer (CEO), the Production Manager or the Personnel Manager.

The research used mainly primary data. The survey questionnaire was the main data collection tool. The primary data were collected by means of a structured questionnaire that had closed and open-ended questions on a five-point Likert Type scale. It covered Firm resources, Organizational characteristics, and export performance of SMEs involved in

manufacturing activities. The reliability of the data collection instruments was estimated using Cronbach Alpha Coefficient which assessed the internal consistency or uniformity among the study instrument items. All variables were reliable since their Cronbach Alpha value exceeded 0.7, with the largest Cronbach Alpha value of 0.8269 and the smallest Cronbach Alpha value of 0.7170 in the organizational characteristics. Given high values of the test, all the variables were reliable, hence the research instrument was reliable and therefore no amendments was required. Sampling adequacy tests was done to determine the validity of the study tool. This allowed the survey to determine whether the latent variables items were suitable for further assessment. Against the results obtained from the sampling adequacy test of Kaiser-Meyer-Olkini (KMO) and the sphericity test of Barlett the findings show that the measurement scales exceeded the 0.5 limit set by Williams, *et al.* (2012) where; firm resources (0.6854), organizational characteristics (0.5970), and export performance (0.7765). According to Williams, *et al.* (2012), for sampling adequacy with values above 0.5 being better, 0.50 is appropriate under KMO view. Descriptive statistics and tests of significance were computed to analyze data. Multiple linear regression analysis was used to develop the model expressing the relationship between dependent variable (Export Performance), and the two independent variables (firm resources and Organizational Characteristics).

Results And Discussions

The study presents the descriptive results for characteristics of the manufacturing SMEs in Nairobi County. It also explores the spread of export markets. These characteristics include age of the firm and ownership status. On age of the firm, the study sought to establish the length of stay or existence of the sampled firms in the manufacturing sub-sectors identified under this study. Table 1 presents findings on age of the firm or period of existence.

Table 1: Age of the Firm (Years)

Age of firm	Frequency	Percentage
Below 3 years	58	24.37
3 to 6 years	84	35.29
7 to 10 years	33	13.87
More than 10 years	63	26.47
Total	**238**	**100.0**

Source: Primary Data

From the findings, majority of the firms that is about 35.3 percent had been in existence for a period of 3 to 6 years whereas approximately 26.5 percent had been in operation for more than 10 years. About 24.4 percent and 13.9 percent had existed

for less than three and 7 to 10 years respectively. The fact that almost 60 percent of the businesses have been in place in less than a span of 6 years, denoting new entrants in the manufacturing sub-sectors is at a higher rate.

From frequency distribution results, most of the sampled firms had an extensive experience in manufacturing business and therefore well versed with performance of the manufacturing sector and industry as a whole through their measurement indicators, a construct of interest to the current research. The experience of three and above years accounting for over 75.6 percent of the SMMEs was enough for the respondents in these sub sectors to offer valid responses based on a wider knowledge base of the general operations of a manufacturing sub sector. The study also sought to understand the ownership status of the SMMEs. The ownership was divided into three categories, these were; fully Kenyan owned, fully foreign owned, and joint ownership. Table 2 presents the outcome with regard to distribution of firms in terms of ownership. The results is are shown in table 2:

Table 2: Ownership Status

Ownership Status	Frequency	Percentage
Fully Kenyan Owned	150	63.03
Fully Foreign owned	11	4.62
Jointly owned	77	32.35
Total	**238**	**100**

Source: Primary Data

From the findings, the study found that approximately 63 percent of SMMEs were fully Kenyan owned followed by 32.4 percent which were jointly owned. The rest that is 4.6 percent were foreign owned. The findings are an indication that the government may have created an enabling environment for starting up new SMMEs. This syncs well with the fact that most business enterprises were registered less than six years ago, the same time the government began decentralization of the new system of governance, and adoption of modern technology to register a business. By reducing bureaucracies, more Kenyans of all age categories or class were able to register different businesses and compete favourably in the market with ease. On the other hand, the study had provided four choices of export markets and the respondent was required to indicate one of the main choice. The choices were as follows; up to 3 markets, 4-6 markets, 7-9 markets and ten and above markets. Table 3 shows the findings.

Table 3: Spread of Export Markets

Distribution	Frequency	Percentage
Up to 3 markets	105	44.12
4-6 markets	94	39.50
7-9 markets	20	8.40
10 and above markets	19	7.98
Total	**238**	**100.0**

Source: Primary Data

Based on findings in Table 3 the distribution of markets where the largest was reported, was up to three markets representing 44.1 percent followed by 4-6 markets at 39.5 percent. The rest of the markets that is above seven markets were less than 16.5 percent. This implies that most of the SMMEs have not penetrated in selling their products in other regions but depend on regional markets. It could be as a result of lack of information or red tape by the governments by creation of trade barriers.

Table 4: Joint Effect of Firm Resources and Organizational Characteristics on Export Performance

Model Summary[d]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.699	.698	.685	.0395

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.482	3	5.161	16.420	.000[b]
	Residual	73.79	235	.314		
	Total	89.272	238			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.559**	.252		2.22	.026
	Firm Resources	-.201	.114	-.134	-1.77	.076
	Organizational Characteristics	.387**	.173	.158	2.24	.025

a. Dependent Variable: Export Performance
b. Predictors: (Constant), Firm Resources, Organizational Characteristics

****Significant at 5 percent level. Source: Primary Data**

The results shown in table 4 reveal that firm resources had a negative relationship on export performance while organizational characteristics, had a positive effect on export performance. The individual effect of firm resources on export performance was not significant (β=-.201, t = -1.77, p>.05). Holding organizational characteristics constant, firm resources lowers export performance by 0.201 units. Second, the results revealed that the individual effect of organizational characteristics on export performance was statistically significant (β=.387, t = .2.24, p<.05). This implies that holding firm resources constant, organizational characteristics significantly increases export performance by 0.387 units.

Results on joint effect as indicated by model summary and ANOVA, show that the model on overall was significant (R^2 = .699, F= 16.420, p<.05) despite the fact that firm resources had insignificant effect. The joint effect was greater and significant than the individual effect. It implies that 69.9 percent of the variation in export performance were explained by the changes in firm resources and organizational characteristics. The hypothesis that firm resources and organizational characteristics don't have any significant joint effect on the export performance of SMMEs in Nairobi County Kenya. These findings were supported by empirical findings of Lages and Montgomery (2005) who had established that some firm characteristics such as, labour productivity, export orientation, and concentration, and firm size are important determinants of firm's export intensity. In addition, the findings concurred with the results of Gilaninia, et al (2012) who examined the impact of organizational factors on export performance of export firms Located in Tabriz.. They concluded that export commitment and the export experience with the dependent variable of the export performance have positive and significant effect.

Conclusions And Recommendations

Rate of success of a company involved in export can be evaluated with its export performance. Based on the findings, the study concludes that firm resource and organizational characteristics jointly and significantly influence export performance of SME in manufacturing. However, at individual levels, the study conclude that organizational characteristic had a positive and significant effect on export performance. This then brings the issues of organizational characteristics and general implication of being responsive at firm level. There is a need for decision makers to pay better attention to organizational factors affecting the rate of the export performance. They need to pay attention to decisions that lead to increased exports in the country trading enterprises are recommended to improve their export performance. SMEs in manufacturing need to be encouraged to plan well and monitor their businesses based on organizational alignment and resource endowment. It is important to recognize that experiential knowledge about local and foreign markets as well as their respective operations is a guiding force in the internationalization of firms. Firms need to increase their export experience to gain from benefits such as increased confidence of export activities, as well as better understanding of the mechanism of foreign markets. Internally, they need to develop networks of extensive communications with their customers. To the national and county governments, there is need of formulating legislation and policies that promote exporting by small

and medium-sized enterprises in manufacturing, by reviewing required firm resources and internal firm characteristics for successful exporting. Further, stakeholders in export promotion should appreciate the importance of credit as a critical element in acquisition of other resources such as labour and technology

Limitations Of The Study

The study focused on SMEs operating in the manufacturing sector within the Nairobi City County. The study therefore limited its scope to Nairobi City County and excluded other manufacturing SMEs in other counties within Kenya. The fact of limiting the study to one geographic area, limits the possibility of a larger population and equally limits the sample size which in this case was limited to Nairobi City County. The contextual limitation therefore restricts the generalization of the study findings to the SMMEs operating within the manufacturing sector in Nairobi City County. Considering that the total number of manufacturing enterprises operating in Nairobi City County is dynamic and geographically diverse, some firms were in areas lacking good infrastructure areas and not easily accessible prompting delays in obtaining data. In addition, some are not licensed. The study focused only 265 of the licensed SMEs in manufacturing and exporting. Again, the list of the population of SMMEs provided by concerned agencies was composite and did not list the enterprises into the six sub-sectors and the researcher had to resort to the respective sub-sectors.

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