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International expansion and unobserved heterogeneity in critical success factors

Empirical evidence from Tanzania and Kenya

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Abstract

Purpose – The purpose of this paper is to examine the existence of unobserved heterogeneity in the critical drivers of firms' international expansion. Testing for unobserved heterogeneity assists researchers to come up with precise interpretations and valid conclusions.

Design/methodology/approach – Building on the resource-based view (RBV) and institution-based view, this study applies partial least squares structural equation modelling to empirically examine whether there are significant differences in the success factors among 105 export manufacturers.

Findings – Statistical results reveal significant differences for the relationships between: managers' entrepreneurial capability (MEC) and export intensity (EI); a moderating effect of institutional support on the relationship between MEC and EI; and firms manufacturing capability and EI. The research results also show that the RBV is salient for all firms expanding from emerging economies. These findings provide evidence that unobserved heterogeneity is likely to lead to misinterpretations of results and false conclusions.

Originality/value – Despite the abundance of natural factor endowments, export performance of firms from emerging economies remains unimpressive. The unobserved heterogeneity revealed across countries calls for business actors at all levels and in different capacities to work on the synergised investment, production, and trade policies in favour of the overlooked human created endowments, particularly capabilities. Capabilities account for the largest part of unobserved heterogeneity and firms' superior performance.

Keywords Unobserved heterogeneity, Success factors, International expansion, Emerging economies, Multi-group analysis

Paper type Research paper

1. Introduction

Firm capabilities (Barney, 1991; Peteraf, 1993; Mas *et al.*, 2006) and support from national institutions (Hitt *et al.*, 2006; Peng *et al.*, 2008; Wu and Chen, 2014) have routinely been associated with the success in international expansion of exporting firms. However, the assessment of the heterogeneity in these critical drivers of international expansion has attracted negligible if any attention among exporting firms, particularly from Africa. A successful international expansion of exporting firms does not only signify the importance of firms' specific capabilities, but it is also a reflection of differences in institutional environments in which managers operate (Peng *et al.*, 2009; Danis *et al.*, 2010). These differences are mostly attributed to increased competition and market turbulence for all businesses. A clear example is the clothing industry (Eusebio *et al.*, 2007b). This industry is global in nature and its production platforms have been changing over time due to endogenous market dynamics and exogenous market shocks associated with trade policies (Arora *et al.*, 2004; Nordas, 2004).

Market dynamics have undoubtedly rendered firms heterogeneous with respect to their capabilities to manufacture and export their products to various markets. This means that firms within industries with distinct market structures tend to vary with respect to how they efficiently and effectively use capabilities to produce goods and services (Porter, 1980; Bamiatzi, *et al.*, 2016). Despite this variation, several studies relating to export trade both in

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