International expansion of clothing manufacturers from Kenya: A dichotomy between firms' capabilities and institutional support

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Abstract

There is little if any scholarly work on institutions and internationalisation of companies from Africa. This research contributes to the clarification of the interactions between firms' capabilities and institutional support in relation to international expansion. Using a cross-sectional sample of sixty surveyed enterprises and four case studies the article explains why clothing manufacturers from Kenya expand into non-African markets. To that end, the article builds on resource-based and institution-based views to uncover the circumstances under which each view precedes the other. Key findings reveal that institutional support attracts investors in this sector and influences their exports destination. However, since international expansion is an entrepreneurial activity, which entails continuity, firms-specific capabilities are found to be critical antecedents to international expansion.

Keywords: firm-specific capabilities, institutional support, diversification strategy, mixed methods approach

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1. INTRODUCTION

International expansion is not only for companies that have a greater knowledge or are technologically more innovative. It is also for such traditional economic sectors as clothing (Belso-Marti´Nez, 2006). Diversification into export market categories with greater value added products than traditional agricultural exports remains a major objective for many low-income developing countries (Brenton and Hoppe, 2007). Clothing manufacturing is a potential first step for developing and least developed countries that intend to embark on an industrialization path (Morris and Barnes, 2009) including Kenya (see Omolo, 2006; ACTIF, 2013). There is no consensus on which international expansion strategies between market concentration and market diversification that leads to better export performance (Mas, Nicolau and Ruiz, 2006; Weerawardena, Mort, Liesch and Knight, 2007; Cieślik, Kaciak and Welsch, 2012). However, extant literature suggests that for young firms (like clothing manufacturers from Africa) seeking to avoid direct competition with large firms (like clothing manufacturers from Asia), taking low market shares in many markets through international market diversification may be more profitable (Yeoh, 2004; Mas et al., 2006).

Kenya is a signatory to a number of international and regional agreements that are formulated to foster trade in general and manufacturing and exports in particular. Kenya's most significant trade agreements include the African Growth and Opportunity Act (AGOA) of USA, Economic Partnership Agreements (EPAs) of the European Union (EU), the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA). Due to its labour-intensiveness, clothing manufacturing in Kenya has had great potential to spur economic growth but since trade liberalisation its performance has been unstable (Fukunishi, 2013). Specific bottlenecks to Kenya's internationalization efforts are well documented (See UNIDO, 2007; USITC, 2009; NEPAD-OECD,

2010). Despite those bottlenecks a few clothing manufacturers have managed to export to a larger number of non-African markets and generate more revenues specifically from USA (Figure 1).