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Institutions and Diversification of International Markets: A Study of Clothing Manufacturers from Tanzania and Kenya

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Introduction

The influence of serving different geographical markets and the respective benefits of a diversification strategy are under-researched, particularly with regard to the internationalization of firms (Zeng, Xie, Tam and Wan, 2008; Cieślik, Kaciak and Welsh, 2012). Market diversification through exporting is a cheap way of internationalization that is more commonly used by smaller firms (Kwon and Kopa, 1993; Ang, 2007), such as those found in Africa. However, variation in national institutional environments enables and constrains different strategic choices such as geographic diversification (Peng and Delios, 2006). For example, the economic policy orientation of the state, including its international trade and investment policies, its impact on shaping the development of market institutions and its interaction with entrepreneurs influence the evolution of firms in emerging economies and their international operations (Yaprak and Karademir, 2010).

Diversification into international market categories with greater value added than traditional agricultural exports remains a major objective for many low-income developing countries (Brenton and Hoppe, 2007). Textiles and clothing are major examples where developed and developing countries have been able to significantly increase and diversify products and markets. The sector has had positive effects on incomes, with employment of millions of women and youths eventually causing poverty alleviation (Thoburn, 2010; UNCTAD, 2011). Over time,

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as relative costs of labor and capital shift, clothing manufacturing has moved from the United States, the United Kingdom and Japan to lower-cost countries or "production platforms" in Asia and is now slowly moving production to Africa.

Clothing manufacturing in Tanzania and Kenya has not yet developed into a source of significant manufacturing and exporting. Despite trade preferences, sales of this sector largely end up in domestic markets and very little in export markets (USITC, 2009). The most serious bottlenecks in these two countries are the large influx of second-hand clothing, lack of market knowledge and capabilities, lack of technological information, poor attitude on quality, poor utilities and infrastructure, low and unexploited linkages with global value chains, poor management, low entrepreneurial development and outdated technology (see, e.g., Rutashobya and Jaensson, 2004; Yoshino, 2007; MITM, 2008; USITC, 2009; NEPAD-OECD, 2010). Amid those challenges, a few clothing manufacturers have not only managed to export but also diversified export destinations of their products into a number of distant and high-value international markets (see Figure A.1 in Appendix 10.A).

Given various challenges relating to business environments, the key question that emerges in the contexts of Tanzania and Kenya is as follows: *What is it that enables some clothing manufacturing companies to respond to various international market opportunities?* This study employs capabilities approach to internationalization to fill in the voids left by previous studies. Unlike tangible resources, intangible resources and capabilities are the most important source of firm competitiveness and superior performance because of relatively high barriers to duplication and difficulty to purchase (Teece, Pisano and Shuen, 1997; Bowman and Ambrosini, 2003). Trade preferences granted to these countries are opportunities fostering international business (IB) and trade and not firms' resources and capabilities. The assumption is that in addition to trade preferences, firms that have diversified into various international markets possess unique resources and capabilities generated within themselves and from their networks with supporting institutions. With that assumption in mind, theories relevant to internationalization are reviewed in the next section. The section "Research model" develops the structural model, followed by "Methodology", which presents the methodology. "Results and discussion" discusses the results. "Conclusions" and "Implications" present the conclusions and study implications, respectively. Finally, "Further elaborations, limitations and directions for future research" outlines the limitations of this study and suggests areas for future research.

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