

## **The Influence of Firm Capabilities on the Internationalisation and Performance of Publicly Quoted Companies in Kenya**

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**This research is based on an integrated theoretical approach. Internationalisation theory is integrated with the resource based view, and a theoretical model is developed that examines the influence of firm capabilities on the internationalisation and international performance of publicly quoted companies in Kenya. The study specifically considers the effect of organisation innovation intensity, knowledge capability and adaptive capability on the degree of internationalisation and performance. The proposed model is tested based on data drawn from a survey of internationalised publicly quoted companies in Kenya. The results show that firm capabilities have a positive influence on the degree of internationalisation and performance of a firm. The research provides implication for management practice and policy and highlights areas for future research.**

**Key words:** Firm capabilities, Internationalisation, Performance, Publicly Quoted Companies, Kenya.

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## **Introduction**

The internationalisation of firms has generated interest not just because of the benefits to firm growth, survival and competitive position, but also because of its positive influence on a nation's economic growth and development (Rutashobya and Jaenson, 2004). While internationalisation can be a source of growth for firms, it can also be a risky venture that can generate losses which may adversely affect the long term survival of a firm. Internationalisation is considered risky because it demands more resources to buffer costs. Additionally, there are risks that may be incurred overseas due to greater managerial complexity and the liability of foreignness especially when firms experience resource constraints (Bianchi and Ostale, 2006).

One of the primary objectives of studying the determinants of international performance of firms has been to determine the relative effects of particular factors on firm performance and consequently the effect on competitive advantage, international expansion, economic growth and firm survival (Zhou, Barnes and Lu, 2010; Lu, Zhou, Bruton and Weiwen, 2010). Most of the previous studies have been within the context of MNCs from developed economies and some emerging economies. It has been noted in literature that there is no definitive agreement on the nature, direction and significance of the relationships studied (Zeng, Xie, Tam & Wan, 2009). Gradually, how firms from developing economies can acquire, leverage and apply capabilities to support internationalisation and achieve improved international performance is an area of interest for research. Given the effect of

internationalisation to firm growth, it is important to understand the relative effects of firm capabilities on the international expansion and performance of firms operating in developing economies so as to provide mechanisms that may enable improved performance of these firms.

## **Theoretical Perspective**

The international performance framework in the current research was studied within the context of a number of thematic areas. The key theories were internationalisation theory and the resource based view. Internationalisation theory suggests that factors internal to the firm influence internationalisation behaviour and performance (Beamish and Lupton, 2009; Ruzzier, Hisrich and Antoncic, 2006; Yamakawa, Peng, Wang and Jiang, 2008; Johnson and Valne, 1977). The resource based view intimates that firm resource heterogeneity leads to differential performance implications both locally and internationally (Barney, 1991; Wernefelt, 1985; Grant, 2002). Both theories are discussed further below.

### **Internationalisation theory**

A number of economic and behavioural perspectives have contributed to the understanding of internationalisation. Internationalisation theory has evolved from market imperfection and the theory of the firm (Penrose, 1959) to international operation theory (Hymer, 1960) and subsequently to internationalisation theory (Buckley and Casson, 1976; Johanson and Vahlne, 1977; Kogut and Zander, 1993).

The contemporary literature on internationalisation has been inspired by the initial work of the Uppsala School

(Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975). The researchers proposed that the internationalisation process is based on an evolutionary and sequential build-up of foreign commitments over time. The perspective studies how the internationalisation process evolves. According to the Uppsala model, the speed, process and mode of internationalisation is determined by a firm's capability, experience and development over time. As a consequence, the knowledge about foreign markets that a firm acquires, integrates and utilises is expected to have an effect on internationalisation. The gradual entry into foreign markets enables firms to gain experience overtime. In order to successfully internationalise, commitment of resources and experience is therefore required (Morgan and Katsikeas, 1997; Johanson and Vahlne, 1977).

Further internationalisation theory approaches developed included the Product Life Cycle model (Vernon, 1966), the Uppsala Model (Johanson and Vahlne, 1977), Transaction cost theory (Williamson, 1975), Eclectic Paradigm (Dunning, 1981, 2000) and Porter Paradigm (1990). The transaction cost theory, which is based on transaction cost economics (Williamson, 1975). This theory looks at the "how" and "why" decision of internationalisation. According to this perspective, intangible assets positively influence the internationalisation decision and consequently the performance of firms (Buckley and Casson, 1976).

The Eclectic Paradigm (Dunning 1981, 1996, 2000), also known as the Ownership, Location and Internationalisation (OLI) Paradigm, is

grounded on international trade theory. It provides the theoretical framework that explains the different forms of international production and economic activity. The internationalisation process is influenced by the realization of ownership, location and internationalisation advantages. The ownership advantage comprises of the level of intangible assets, technological and product innovations. Location advantages relate to the production and institutional factors that are resident in a particular geographical location and location advantages of home and host countries. The internationalisation advantage stems from a firm's ability to create value through management and coordination of internal activities through foreign direct investment. The ownership advantage, which specific to the firm is the area of focus of this study. Ownership advantages from capability development, acquisition and deployment are expected to improve international performance as a firm internationalises. Previous research has highlighted that the internalisation of OLI advantages in the international market place is beneficial in overcoming reducing transaction costs, overcoming market imperfections and maximizing economic returns (Dunning, 1996; Sim and Pandian, 2003).

### **Resource Based View**

The RBV originated from research that acknowledged the importance of organisational specific resources to firm success and was developed further by Penrose (1959) and Demstet (1973). Further research has made significant contribution to its development (Barney, 1996, Grant 2002). The Resource Based View (RBV) suggests that sustainable superior performance and competitive

advantage of any firm is the result of the accumulation and utilisation of resources, managerial choices, factor market imperfections and strategic industry factors (Hafsi and Ganthier, 2003; Dharanaj and Beamish, 2003). Firm heterogeneity instead of external environmental factors are considered relatively more important determinants of the performance and competitive position of a firm both in the local and international market place (Barney, 1991, Tseng et al, 2007; Lu et al., 2010). The Resource Based View (RBV) views firms as a combination of skills, resource and capabilities. The acquisition, integration and utilisation of resources and capabilities is expected to influence the performance of firms. These resources are expected to be rare, inimitable, valuable and unbundable (Grant, 2002; Yaprak & Karademir, 2010).

The RBV challenges the market-based view of economics by asserting the existence of firm heterogeneity among companies in the same industry group due to the rare and valuable resources they own assuming the imperfect mobility of these resources across firms. It also implies that firm performance and behaviour is influenced by firm specific factors instead of market structures and firms strive to identify, acquire, exploit, utilise and protect its rare, valuable and inimitable resources, skills and proprietary assets (Dhanaraj and Beamish, 2003; Tseng et al., 2007; Barney, 1996).

Within the international context, the RBV tenets of firm heterogeneity and resource immobility are considered to be applicable in firm internationalisation and performance (Tan and Mahoney, 2005; Knight and Cavusgil, 2004). Firms in the

same industry are expected to exhibit different levels of international performance due to the differences in resource profiles. Additionally, resource acquisition and accumulation reflects entrepreneurial and innovative activities if cost of resource accumulation is less than the income that the utilisation of the respective resource generates (Peteraf, 1993). Tseng et al. (2007) argues that the firm resources that may be mobile internationally within a firm and its international operations, are not perfectly mobile across firms implying the level of resources will limit the range of a firm's expansion strategies internationally.

An extension of RBV, the dynamic capabilities view, suggests that capabilities are a complex bundle of skills and accumulated knowledge, exercised through organisational processes that enable firms to utilise their assets and functions as key success factors, cost effectively deliver customer value and deploy resources advantageously (Mohammed, Hui, Rahman and Aziz, 2008). It has also been suggested that capabilities enable firms to compete in the long term and may account for competitive advantage and superior performance (Day, 1994; Grant, 2002; Lu et al., 2010; Hall, 1993).

Another extension of the RBV, the knowledge based view (KBV) of the firm suggests that knowledge is a strategic resource of the firm, and intangible assets are of great importance to the firm (Grant, 1996; Balogun and Jenkins, 2003; Grant, 2002; Mathews, 2003). KBV suggests that differences of performance between firms are a consequence of knowledge asymmetries as a capability (DeNisi et al., 2003). This is because organisational

capabilities emerge overtime through a process of organisational learning (Zahra, 2005) and are considered to be specific to each organisation (Rugman and Verbeke, 2002). Theory exists supporting implementation of firm resources through distinctive capabilities, however little empirical evidence exists linking these capabilities to international expansion and firm international performance within the context of developing economy firms.

Several international business studies have reviewed the performance implications of firm level factors. (Aaby and Slater, 1989; Dhanaraj and Beamish, 2003; Tseng et al, 2007). Prior studies have been largely based on multinationals from developed western based economies, examining export behaviour and foreign direct investment. Later studies have focused on third world multinationals (Tseng et al., 2007; Zeng et al., 2009). Lall (1996) however suggest that a firm's country of origin development stage should be taken into consideration when reviewing the international performance of firms. The effect of firm capabilities on the internationalisation and performance of developing economy firms has not been widely studied as in the context of developed country firms.

### **Firm Capabilities, Internationalisation and Performance**

Firm capabilities are defined as a "special type of resource, specifically an organisationally embedded and non-transferable firm specific resource, whose purpose is to improve the productivity of the other resources possessed by the firm" (Makadok, 2001 p.389). Firms are expected to optimally allocate and utilise resources and capabilities in order to be

able to exploit available opportunities in the international market place while minimising costs and managing associated risks. Previous empirical studies have supported the view that intangible assets positively influence the internationalisation and performance of firms (Buckley and Casson, 1976; Dunning, 1980; O'Cass and Weerawandena, 2009) and the integration of innovation activities (Arias-Aranda, Minguela-Rata and Rodr o guez-Duarte, 2001). A review of available literature has highlighted a number of capabilities that are important to internationalisation (Lu et al., 2010; Dhanaraj and Beamish, 2003). The firm capabilities researched in this study comprised of knowledge capability, adaptive capability and organisation innovation intensity.

Organisation innovation intensity has been defined as the application of ideas that are new to the firm in products, processes, services, management or marketing systems, which add value either directly or indirectly for the firm (O'Cass and Weerawandena, 2009). Porter (1990) viewed innovation as both technological improvements and improved methods in processes, product changes, marketing and distribution and in any of the value creating activities of the firm. Research has shown that firms pursue both technological and non-technological innovation and these facilitate international expansion. Research examining the antecedents of firm international expansion and the subsequent effect on performance and capability building has focused mainly on developed and emerging economy firms (Zahra, 2005; Petersen, Pederson and Lyles, 2008; Soriano and Dobson, 2009). Consequently, organisation innovation is

expected to have a positive influence on the international expansion and performance of firms. Hypothesis one and two are therefore as follows;

H1: Organisationa innovation intensity has a positive effect on the internationalisation of a firm

H2: Organisational innovation intensity has a positive effect on the performance of a firm

As a firm internationalises and gains knowledge and experience about foreign markets, its organisation learning ability is improved and knowledge base enhanced (Tsang, 2002). The extent of learning is determined by its access and dissemination of the information gained in the international varied markets and environments (Zahra et al., 2009). International expansion has also been considered as a means of acquiring resources and knowledge and enhancing capabilities (Lu et al., 2010). Previous research has highlighted the positive effect that acquiring and processing foreign market information has on the international performance of firms (Zeng et al., 2009; Keskin, 2006). However, developing economy firms may experience challenges when trying to obtain foreign market information due to the liability of foreignness and resource constraints. These firms may rely on government and other partners to provide information on foreign markets, trade requirements and restrictions (Lu et al., 2010). Experiential knowledge is an important determinant of performance, especially in the international market place (Farrell et al., 2008; Slater and Narver, 1995). Knowledge capability has been associated

positively with firm international expansion, innovation and performance (Zahra et al., 2009). The knowledge capability of a firm is therefore expected to have a positive effect on international expansion and international performance. Therefore based on the above, Hypothesis three and four are as follows;

H3: Knowledge capability has a positive effect on the internationalisation of a firm.

H4: Knowledge capability has a positive effect on the international performance of a firm

Adaptive capability is a firm's ability to coordinate, recombine and allocate resources to meet the changes required to meet the changes required by foreign customers and suppliers (Lu et al., 2010). It has been highlighted by prior research as an antecedent to performance as it is essential for firms to be versatile as they meet the different market and cultural requirements and standards of the foreign markets by tailoring their products and services to the market requirements (Dow, 2006). Foreign markets tend to provide greater complexity, competition and dynamism than home markets (Dow, 2006). Large multinational firms from developed economies may possess slack resources and may not be quick to react to changes in the foreign markets. Firms from developing economies are relatively smaller in size and may experience resource constraints when required to react to changes and hence need to have the capability of adapting quickly. Participation in existing institutional arrangements and government programs like trade fairs also provides these firms with opportunities to internationalise

through linkages with potential customers and suppliers. These institutional structures enable firms to adapt more quickly and easily foreign market requirements thereby enhancing performance (Shinkle and Kriauciunas, 2010; Lu et al., 2010). Hypotheses five and six are as follows:

H5: Adaptive capability has a positive effect on the internationalisation of a firm

H6: Adaptive capability has a positive effect on the international performance of a firm

Internationalisation is defined as the process through which a firm moves from operating solely in the domestic marketplace to international markets (Anderson, 2000; Buckley and Casson, 1998). Another definition is the process of increasing involvement in international operations (Welch and Loustrarinen, 1988) or adapting its resources to international environments (Calof and Beamish, 1995). International expansion is an important path to firm growth. This presents opportunities as well as challenges to firms. The acquisition and development of capabilities assist in the successful entry into foreign markets. The firm also need to extend and build new relationships with stakeholders, hire new staff and establish its legitimacy in the new markets (Lu and Beamish, 2001).

Previous research on the link between internationalisation and performance has sought to prove that internationalisation is an antecedent to enhanced performance. Two core theoretical approaches describe the effects of internationalisation, namely

theory of the multinational firm and theorie of foreign direct investment (Chen 2005; Andersen, 1993; Calof and Beamish, 1995). Foreign direct investment theories are economic driven, explain the existence of multinational corporations and focus on external factors. Internationalizing firms are expected to benefit from market imperfections. Multinational Corporation Theories have adopted a managerial perspective, focusing on internal factors (Capar and Kotabe, 2003). The current study takes the MNC theoretical perspective of international business which looks at internal factors that influence performance. Combined with the resource-based view of the firm (Grant 1992; Barney, 1991; Wernerfelt 1984), it suggests that capability development and deployment will enhance international expansion and thereby enhance international success. Most of the previous research has been based on multinational corporations from developed economies and there is a need for additional empirical research on the effect of international expansion on the relationship between firm capabilities and international performance within the developing economy firms context and especially within the Kenyan context.

H7: The international expansion of a firm is positively related to its performance

## **Data and Methodology**

### *The Population and Data Sources*

The population consists of publicly quoted companies in Kenya. These companies are listed on the Nairobi Securities Exchange, details of which are contained in the NSE Handbook, 2011. Firms with operations involving cross border activities were studied. At the time of the study, there

were 58 publicly quoted companies. The population comprised of 58 firms, operating in various industry segments.

### **Variables and Measures**

Firm international performance has been defined as the outcomes of a firm's activities in the international market place. Research has previously expressed performance in generally three forms, financial, strategic and perceptual measures (Zou et al., 1998). Return on assets was used to measure international performance. The choice of using this measure was mainly due to the availability of data and also because previous studies have used this measure. Research has also highlighted that asset based performance measures are less likely to take the difference in the degree and proportion of possession of intangible assets into account for firms operating in different industries (Caper and Kotabe, 2003)

Three types of firm capabilities were captured in this study, knowledge capability, adaptive capability and organisational innovation intensity. Knowledge Capability was operationalised with a three item five-point likert type scale to capture the extent to which a firm could acquire information required to understand foreign customer needs, identify overseas market opportunities and comply with the requirements of foreign trading partners as adopted from Lu et al. (2010) measured on a scale of 1 (not at all) to 5 (very great extent). Adaptive capability was operationalised using three five-point likert type scale items to indicate the extent to which their firms could meet foreign customer demands in terms of product and service specifications, tailor

products and services to foreign customer requests and respond to a price change demand from a foreign customer as adopted from Lu et al. (2010) measured on a scale of 1 (not at all) to 5 (very great extent). Organisational innovation construct was conceptualised as comprising of technological and non-technological innovation measured using an eight item five-point likert type scale to capture the extent of managerial, marketing, product and process innovation intensity in the firm (Rothwell, 1992; O'Cass & Weerawandena, 2009).

The degree of internationalisation was operationalized as the level of internationalisation intensity of the firm which is the ratio of international sales to total turnover of the firm and the proportion of foreign customer base to the total customer base. Ramaswamy et al. (1996) has argued for the use of a single item measure while Hult et al. (2007), suggest that multiple measure of performance should be used in research. This is consistent with other studies

Based on previous studies, firm size, industry effects and perceived environmental uncertainty were employed as control variables. Firm size measured by the natural logarithm of number of employees was used to control for potential size effect differences. Control of industry effects was done by using four industry dummy variables representing the four industries (Agriculture, Commercial and Services, Industrial and Allied and Financial and Investments).



Perceived environmental uncertainty has been reported in previous research to have an impact on the international performance of firms (Lu et al., 2010). Perceived environmental uncertainty was adopted from Lu et al. (2010) and measures a firm's perception about the external foreign market environment and the perceived effect of international market risk on its ability to forecast the sales quotas of products or turnover generated from services in overseas markets, the influence of changes in the trade policies of overseas markets on product/services exported or imported and the ability to forecast the competitive advantage of products/services in overseas markets.

## Results

Partial least squares analysis (PLS) structural equation modeling is employed to estimate the theoretical model using the software application SmartPLS 2.0. Ringle et al., 2005). PLS is appropriate for instances of sample size as was the case in this study ( $n = 50$ ). PLS path modelling is considered an appropriate method (Hair et al., 2011).

## Measurement model validation procedure

The measures were all based on literature and in some case modified to reflect the current context of the research. Construct reliability and validity was assessed. All constructs met the recommended minimum acceptable level of composite reliability. In this study, all constructs achieved composite reliability of 0.8 and above. Measurement and structural model properties were assessed using partial least squares (PLS) with SmartPLS 2.0 (Ringle, Wende and Will, 2005). The measurement model was initially validated. Table 1 presents the results of the measurement model validation. Four aspects were analysed in order to assess measurement model validity. These are construct unidimensionality, construct reliability, convergent validity and discriminant validity (Hair et al., 2011). The factor loadings of all reflective scales are above the recommended 0.7. Convergent validity is supported as the factor loadings are all significant (the lowest t-value is 2.537). The composite reliability were all above the 0.7 threshold and the average variance extracted (AVE) values also exceeded the recommended level of 0.5 (Fomell and Larcker, 1981). Construct reliabilities (CN) are 0.7 and higher. The lowest value of average variance extracted (AVE) is 0.6727.

**Table 1: Evaluation of Measurement Model**

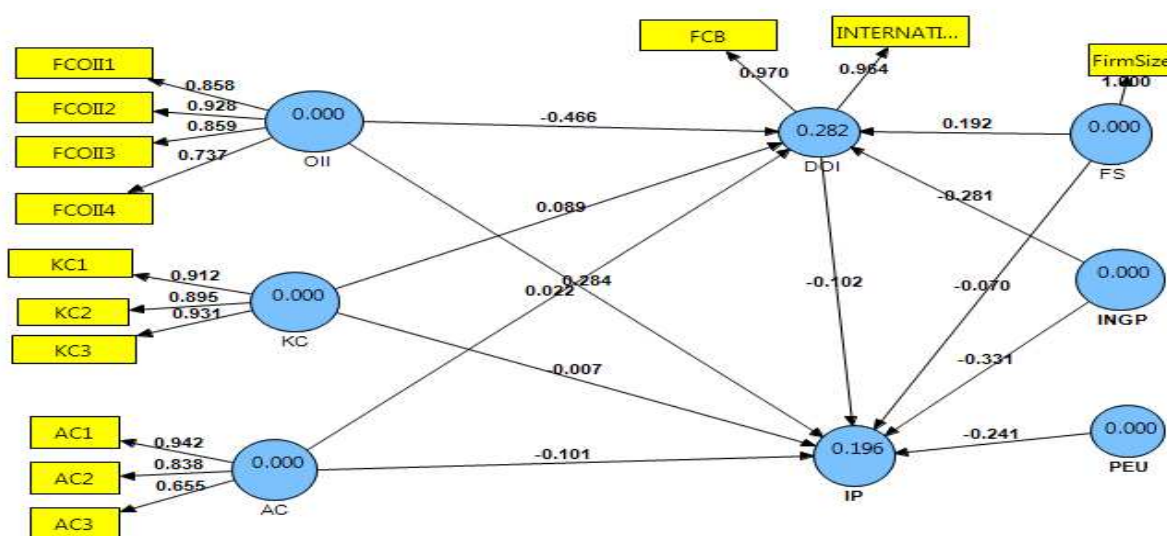
Construct /Dimension/Indicator	Weights	Factor Loadings	t	Composite reliability	Cronbach Alpha	AVE
<b>International Performance (Formative construct)</b>						
ROA	1	-				
<b>Degree of Internationalisation (Reflective Construct)</b>				0.9666	0.931	0.9353
II	0.4918	0.9639	65.956			
FCB	0.542	0.9703	72.9693			
<b>Firm capabilities</b>						
<b>Organisational Innovation Intensity (First order reflective construct)</b>						
				0.9107	0.8721	0.7197
OII1	0.306	0.858	14.5437			
OII2	0.4065	0.9285	25.6718			
OII3	0.2581	0.8589	15.5435			
OII4	0.1878	0.7368	6.1544			
<b>Knowledge Capability (First order reflective construct)</b>				0.9372	0.907	0.8328
KC1	0.1874	0.9118	6.6876			
KC2	0.376	0.8948	6.3298			
KC3	0.5294	0.9307	4.6673			
<b>Adaptive Capability (First order reflective construct)</b>				0.8579	0.7829	0.6727
AC1	0.6718	0.9417	2.6889			
AC2	0.2504	0.8382	3.4998			
AC3	0.2406	0.6547	2.5367			

A number of measures were used to assess the discriminant validity of the outer model. These were coefficient of determination ( $R^2$ ) for the endogenous variables, the Fornell-Lacker Measure and the Stone-Geisser Test ( $Q^2$ ). The  $R^2$  values of degree of internationalisation and international performance were 0.28 and 0.19 respectively. The Fornell-Lacker measure compares the AVE to the highest squared correlation of each construct (Fornell & Bookstein, 1982). As indicated in Table 2, all the constructs in the model met this criteria indicating that

discriminant validity is supported. The Stone-Geisser Test is the Cross Validated redundancy measure for each construct. This measure was produced through a blindfolding procedure in SmartPLS and is required to be equal to or greater than 0. A  $Q^2$  of 1 is considered to mean a perfect prediction of model scores while a 0 is considered to a weak measure. All the measures were above 0 and indicated a fair to strong prediction of the model. The discriminant measures are presented in Table 2 below. Discriminant validity was confirmed for the measurement model

**Table 2: Measures of Discriminant Validity**

Construct	$R^2 \geq 0.17$	Fornell Larker (AVE correlation <sup>2</sup> )	Measure highest	Stone-Geisser ( $Q^2 \geq 0$ )	Test
Organisational Innovation Intensity	-	0.7234 > 0.52		0.501	
Knowledge Capability	-	0.8428 > 0.27		0.142	
Adaptive Capability	-	0.6877 > 0.23		0.243	
Degree of Internationalisation	0.289	0.9353 > 0.195		0.119	
International Performance	0.19	-		0.263	
Firm Size	-	1 > 0.06		0.984	
Firm Age	-	0.6258 > 0.05		0.639	
Perceived environmental uncertainty					



**Figure 1: Measurement Model**

### Structural Model

SmartPLS(Ringle et al., 2005) is used to estimate the inner or structural model and test the hypotheses. The structural model was tested in two stages, first to test its explanatory power and secondly the level of hypotheses support. The parameter estimates and t-statistics are computed using 500 bootstrap samples. The percentage of explained variance ( $R^2$  value) for degree of internationalisation and firm performance were 0.28 and 0.196 respectively.

Table 2 provides the path estimates.

As hypothesised in Hypothesis 1 organisation innovation intensity had a positive and significant effect on the degree of internationalisation ( $\beta = 0.4665$ ,  $p < 0.001$ ). Hypothesis 3 and hypothesis 5 were tested and knowledge capability was found to have a positive and insignificant

effect on the degree on internationalisation ( $\beta = -0.08$ ,  $p > 0.01$ ) and adaptive capability had a positive and insignificant effect on the degree on internationalisation ( $\beta = 0.022$ ,  $p > 0.01$ ). Hypothesis 7 testing resulted in the degree of international being negatively and insignificantly related to the level of firm performance ( $\beta = -0.1018$ ,  $p < 0.001$ ). Hypothesis two, four and six tested the effect of firm capabilities on the international performance of the firm. The level of organisational innovation intensity was positively and significantly related to the international performance of the firm ( $\beta = 0.2844$ ,  $p < 0.001$ ). Knowledge capability was positively and insignificantly related to firm performance ( $\beta = 0.0074$ ,  $p > 0.01$ ) and adaptive capability was negatively and insignificantly related to firm performance ( $\beta = -0.1008$ ,  $p > 0.01$ ).

**Table 3: Parameters from Hypothesis Test**

Relationship	$\beta$	t-statistics	Result of Hypothesis Test
Organisational innovation intensity – Degree of Internationalisation	0.4665	4.3423	Positive Significant
Knowledge capability – Degree of Internationalisation	0.0886	0.7097	Positive Insignificant
Adaptive capability – Degree of internationalisation	0.022	0.2181	Positive Insignificant
Organisation Innovation intensity – Firm Performance	0.2844	2.3526	Positive Significant
Knowledge capability – Firm performance	-0.0074	0.0662	Negative Insignificant
Adaptive Capability – firm performance	-0.1008	0.517	Negative Insignificant
Degree of Internationalisation – Firm Performance	-0.1018	0.8586	Negative Insignificant

### Discussion and managerial implications

This study examines the effect of firm capabilities on the internationalisation and performance of Kenyan firms. Results indicated that firm capabilities are

important for international expansion and consequently firm performance. Firm capabilities help Kenyan firms improve international expansion activities by leveraging of available resources enabling

them to be more adaptive in the international market place.

The relationship between firm capabilities and the degree of internationalisation was expected to be positive and significant based on previous studies (Kuivalanainen et al. 2010; Zeng et al., 2009; Tseng et al., 2007). The current study results supported previous studies in that organisation innovation intensity was found to have a positive and significant effect on the degree of internationalisation. However, knowledge capability and adaptive capability were found to have positive but insignificant effects on the degree of internationalisation respectively.

The results of the current study have found that not all firm capabilities are unique and distinctive in their influence on firm international performance. The relationship between firm capabilities and international performance was found to be positive and significant for organisational innovation intensity, but negative and insignificant for knowledge capability and international performance relationship and negative and significant for adaptive capability and international performance relationship. The findings of this research support the findings of O'Cass and Weerawendena (2009) which found a positive and significant relationship between organisational innovation intensity and international performance. They however contradict previous research of that has found a positive and significant relationship between knowledge capability and international performance (Tseng et al., 2007; Felin and Hesterly, 2007). The findings however don't support the findings of Lu et al. (2010) that found a

positive and significant relationship between adaptive capability and performance.

Tseng et al. (2007) argues that the resources that may be transferable across nations within the boundary of the firm are not perfectly mobile across firms implying that the level of capabilities will limit the range of a firm's expansion strategies internationally. This may explain why the international performance of the firm may not improve with higher levels of knowledge and adaptive capability as firms may be limited to where they can utilise the available capability base and how mobile and transferrable across borders they are in line with the resource based view and internationalisation theory (Tseng et al., 2007)

The current study was founded on an integrated theoretical framework. It built on existing theory to generate a predictive conceptual model that demonstrated strong explanatory and predictive power. Consequently, this research has opened up our understanding about what internal aspects of the firm influence international performance within the context of Kenyan companies. Previous international business research has highlighted the factors promoting or inhibiting international expansion activities and resultant performance implications (Tseng et al., 2007; Aaby and Slater, 1989). By examining the role of the firm capabilities on internationalisation and performance, this study contributed to our understanding of what aspects of the firm capabilities that Kenyan firms possess and how they affect the international performance of these firms.

Management play a key role in how effectively and efficiently firm resources and capabilities are utilised. The question considered in this research that would be of interest to management is what effect do firm capabilities have on the degree of internationalisation and international performance of a firm. It was found that firm capabilities have unique effects on the internationalisation and performance of a firm. Management is able to control decisions on how firm capabilities are utilised by the firm and how best the available resources can be deployed across the firm both locally and globally. The findings have established that there are relative differences in the effect of firm level factors on the internationalisation and international performance of firms. Strategic decisions can be made to ensure the most effective and efficient utilisation of resources across different markets.

### **Limitations of the study and future research**

Inevitably, there are a number of limitations of the research. First, as this study is based on cross-sectional data. The model however, supports existing theoretical and empirical findings (Lu et al., 2010, O’Cass and Weerawendena, 2009). The findings of this study are potentially generalizable to other similar contexts such as other developing economies. The sample size (n=50) for this study is recognized to be small but acceptable. However it should be noted that this was a census of 58 publicly quoted companies and the response rate was adequate to draw conclusions about the population. The main purpose of this research was to explore and test the feasibility of hypothesized relationships for future research.

The data has been collected from a single country, Kenya. This facilitated data collection and controlling diversity but also limited the generalisability of results. The findings rely on respondents self-reported cross sectional data, rather than longitudinal data. This may not reflect changing situations and the series of relationship phenomena between firm level factors and international performance. The cross sectional data may have been affected by the respondents predisposition of any events that have happened in the past or conditions at the time of filling in the questionnaire. Acknowledging these limitations, the research authenticates the developed framework and these limitations did not affect the quality of this study and recommendations addressing these issues are discussed in the section below.

Publicly quoted companies comprise of large and medium sized firms that have been successful in the domestic market and internationally. This study has illustrated that firm capabilities in the form of innovation, knowledge and adaptability have an effect on the international expansion and performance of Kenyan firms. The findings are important to other Kenyan firms attempting to internationalise as the study has highlighted the importance of firm capabilities in the international expansion of firms. This is expected to assist firms enhance their performance in the international market place. In order to enhance generalizability, the model should be tested within other contexts as well.

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