Institutions and diversification of international markets: A study of clothing manufacturers from Tanzania and Kenya

Abstract

Contrary to numerous studies that have documented bottlenecks to international operations of companies from Africa, this research investigates key drivers of their endeavours amid those bottlenecks. A surveyed sample of 105 clothing manufacturing enterprises from Tanzania and Kenya is used to analyse the influence of institutional support on firm's specific capabilities towards international market diversification in terms of export intensity and geographic diversity of foreign markets. While the results for Kenya indicate a strong link between institutional support and firms' specific capabilities towards geographic diversity of foreign markets, such a link is highly blurred in the case of Tanzania. As regards Kenya, such results underpin the applicability of Porter's diamond model, institution-based view and Dunning's Eclectic theory. Results also reveal that limited institutional support in Tanzania makes firms build their own manufacturing capabilities towards geographic diversity of foreign markets. These results are consistent with the resource-based view, which underscores firms' accumulation of internal resources and capabilities without putting much emphasis on their external sources. In either case, the depth of market diversification, i.e. export intensity of clothing manufacturers is not significantly influenced by institutional support. At the macro-level, research findings challenge case countries to enhance institutional and regulatory frameworks in favour of all sectors with growth potential. At the micro-level, firms are challenged to avoid overdependence on government interventions in order to thrive. The bottom line is that despite the influence of institutional support, firms' resources and capabilities are a key precursor to international market diversification.