Growth and Internationalization of Small Enterprises in Kampala District, Uganda

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This study was undertaken at the end of 2011 to examine the levels of growth and internationalization in selected Small business enterprises (SBE) in Kampala district, Uganda. To test the null hypotheses of: (i) no significant difference in the level of growth and internationalization between age of SBE; (ii) no significant difference in the level of growth and internationalization between types industry/sector of SBE; (iii) no significant relationship between the level of growth and internationalization of selected SBE; To authenticate information within the context of the theory to which this study is based. Using a quantitative, ex post facto, descriptive correlational and cross-sectional survey design; the data was analyzed using t-test, Linear Regression, ANOVA and Pearson's methods as were called for. The findings revealed there was a high level of growth and very low level of internationalization; (i) there was no significant difference in levels of growth between age of SBE, while there was a significant difference in level of internationalization between age of SBE;(ii) there was also a significant difference in the level of growth and internationalization between types of industry of SBE; (iii) there was a significant negative relationship between level of growth and internationalization. The Network Theory of Internationalization by Johanson and Mattsson (1988) was authenticated. Conclusion was drawn that level of internationalization was generally low and it was recommended that entrepreneurs should incorporate internationalization in their businesses plan and strategic goal/vision; and that policies and information should be facilitated by government and agencies to encourage internationalization and to reduced the perception of its complexity at least within the East African region and finally the global market.

Keywords: Small business enterprise, growth, internationalization, Uganda
JEL Codes: M16, M13 and M19

1. Introduction

Small business enterprises (SBEs) represent over 90% of private businesses, contributes more than 50% of GDP in most African nations (African Economic Outlook(AEO), 2011); provides employment to approximately 2.7 million people, and are major players in the supply chains of large manufacturing firms in Uganda (Hatega, 2007). Until recent slow down, Uganda's economy was robust and resilient, sustaining a mean economic growth rate of about 6 percent and a reduction of 25 percent in population living below the poverty line between 1992 to 2006 (AEO, 2011).

In Uganda, a SBE is vaguely defined as employing a range of 5 to 50 people, with annual sales turnover of maximum 360 million shillings (approximately US$ 150,000)

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and total assets of maximum 360 million shillings (Ministry of Finance, Planning and Economic Development (MFPED), 2008; Commonwealth Secretariat, 2011). It is argued that the ability of SBEs to internationalize can help enhance performance through access to foreign markets, technologies, processes, etc (Westhead, Wright & Ucbasaran 2004; Hajela & Akbar 2007). With the prevailing conditions and challenges facing SBEs in Kampala district (Hatega, 2007; Kigozi, 2009), is the possibility of growth that leads to internationalization in the foreseeable future? Though the study of SBEs in general has received a lot of attention, with scholars highlighting the high levels of small business failure in Uganda (MFPED, 2008; Kigozi, 2009), none of them however looked at the perspective of growth on internationalization of the SBEs. This predicament has inspired the need for this study on the effect of growth on the internationalization of SBEs in Kampala district, Uganda. The objectives were to identify the demographic characteristics of the respondents; to determine the levels and relationship between growth and internationalization; and to test the null hypotheses.

The paper is structured as followed: section two consists of the reviewed literature, explains the Network Theory on which the study was based and states the null hypothesis of the study; section three consists of the methodology; section four displays and explains the key findings, analysis and null hypothesis testing of the study; section five provides the conclusions and recommendations.

2. Literature Review

2.1 Growth of Small Businesses

In research, firm growth has been operationalized in many ways and different measures have been used; this may be one reason for the inconsistent results reported by several scholars, though other explanations have also been presented (Delmar, Davidsson, & Gartner, 2003). Past studies have shown that firm growth is a multifaceted experience, as Delmar et al. (2003) revealed that firm growth patterns are correlated to the demographic characteristics of firms such as firm age and industry. Small business growth is often closely associated with firm overall success and survival (Johannisson, 1993). Growth has been used as a simple measure of success and performance in business and as Delmar et al. (2003) also insinuate, growth is one of the suitable indicator of the performance for surviving SBEs, this is also echoed by Bradley and O'Reagain (2001) who commented that small businesses could internationalize to seek rapid growth (a performance indicator). The study suggested that internationalization has a positive relationship with firm growth. Orser, Spence, Riding and Carrington (2008) pointed out that growth associated with international markets is a key driver of business internationalization.

2.2 Internationalization of Small Businesses

International business has in the past been considered an exclusive area for big and resourceful companies. Advances in information, communication and transportation technology, and globalization of markets, has changed this, more small businesses are becoming active in the international markets. Internationalization can be defined as a strategic approach in which entrepreneurial firms can realize growth (Suárez-Ortega, 2003). Internationalization is believed to be a major aspect of the growth of a firm (Peng & Delios, 2006). Covellio and McAuley (1999) identified three schools of

thought for internationalization of firms, which are the Foreign Direct Investment (FDI) School, stage model and network perspective; though they pointed out that Stage model is used most, then network and FDI, the revelation was made that all three are present in small business internationalization process. The FDI School is an economics based perspective linked to industrial trade incorporating the combination of activities within the firm while expanding overseas. In the stage model, also famously known as Uppsala model, firms internationalize in incremental stages based on increasing knowledge of the markets and commitment of the management. Internationalization progress from exports, moving to joint ventures, licensing and then to fully–owned subsidiaries in proportion with management knowledge and investment (Hajela & Akbar, 2007). The network view suggests that firms internationalize by building relationships with other firms, government, people, suppliers, and customers from both foreign and domestic market with the view to internationalize (Hajela & Akbar, 2007).

The study sought to disprove or authenticate the Network Theory of Internationalization by Johanson and Mattsson (1988). The model categorizes businesses according to the levels of micro internationalization by the level of macro internationalization, resulting in the four types of business: (i)The *early starter* is a firm that has just begun to internationalize its operations and exist in a market environment that has a domestic orientation or focus; (ii)A *lonely international* is a firm that is highly internationalized, operating in a general market environment with emphasis on domestic orientation; (iii)The *late starter* is a firm that has just begun to internationalize its operations and exist in a market environment that is highly internationalized and (iv)The *international-among-others* is a firm that is highly internationalized, operating in a market environment that has experienced a high degree of internationalization.

2.3 Growth and Internationalization of small businesses

Scholars (Kotabe, Srinivasan, & Aulakh, 2002) believe that firms can benefit from internationalization, contending that there is a positive and linear relationship between internationalization and firm performance, on the other hand Collins (1990) found a negative and linear relation, while Morck and Yeung (1991) found no relationship between the two. Ruigrok and Wagner (2003) claimed that when investigated firms initially exported, the performance decreased and as the number of FDIs grew, the performance became higher; forming the U-shaped relationship between performance of small and Internationalization. While Capar and Kotabe (2003) in contrast indicated an inverted U shape, which meant the greater extent of internationalization the lower performance becomes. Lu and Beamish (2004) integrated the U-shaped and inverted U-shaped relationships, to create the S-shaped relationship, arguing that at the beginning of internationalization, performance declines because of the liability of foreignness and as the firm overcomes the initial hardship and capitalizes on the investing opportunity, performance will be rise as a result of development of new knowledge and capabilities ultimately enhancing competitiveness (Contractor, Kundu & Hsu, 2003).

2.4 Null Hypothesis

Basing on literature reviewed the null hypothesis were made that there is (i) no significant difference in the levels of growth and internationalization between Age of Business of SBEs; (ii) no significant difference in the levels of growth and internationalization between types of industry/sector of SBEs; and (iii) no significant

relationship between the levels of growth and internationalization in the selected SBEs.

3. Methodology

Adopting a quantitative, ex post facto, descriptive correlational and cross-sectional survey design, data was collected using a combination of standardized and improvised questionnaires with questions relating to the demographic characteristics of respondent, growth and internationalization of the respondent business. The Cronbach's Alpha reliability coefficient test (α=0.839) exceeded the reliability coefficient of 0.70 which was stipulated by Creswell (2003) as acceptable in most social science research. Using the Slovin's formula as recommended by Ghozali (2006) that the sample size (n) given the population size (N) and a margin of error (e) is computed as: $n = N / (1 + N \times e^2)$. A minimum sample size of 400 was recommended from the population size of 360,000 legally registered SBEs in Kampala district, which accounts for approximately 45% of all SBEs in Uganda (MFPED, 2008; Kasekende & Opondo, 2003); 600 questionnaires where sent out to respondents and 68.2% (409) of the questionnaires where returned. This study's response rate meets (and exceeds) the required (of 54%) as indicated by Holbrook, Jon, and Alison (2007). This study's sample size of 409 SBEs, exceeds that of 164 Japanese SMEs used in Lu and Beamish (2001), and 324 firms in Wang (2010); similar challenges were faced as in Wang (2010) where respondents were mostly unwilling to reveal business information, especially those relating to finances, but unlike Wang (2010) the response rate was still favourable. Data was collected using a combination of purposive and systematic random sampling; purposive sampling being selecting a sample on the basis of the researchers own understanding of the population, its elements, and the nature of the research purpose and systematic random sampling which includes the selection of sampling units of analysis in sequences separated on lists by the interval of selection (Amin 2005). Analysis was carried out using summary statistics, such as means and ranks; the null hypothesis where tested using the t-test, ANOVA, correlations and regression analysis.

4. The Findings

4.1 Demographic Characteristics of Respondents

Out of the 409 businesses, 63.1 percent where male owned and 36.9 percent where female; the majority of business owners where between the age range of 20 to 39 (early adulthoods, 57.5 percent) followed by those in middle adulthood (40 to 59years ,37.9%); Sole Proprietorships made up a majority (48.9%), with Partnerships, 34.5 percent and (Limited) Companies were the least represented with 16.6 percent; Most businesses have 5 to 9 employees (43.5%), followed by those employing 10 to 19, accounting for 38.1 percent; most of the businesses were 10 years old or less (314) and 90.7% of the businesses have existed for less than 16 years; Others' industry/sector types consisting of cleaning services, Construction, Insurance, Banking, Agribusiness, Textile, Real Estate, Entertainment, Security and petroleum accounted for 14.9%, followed by the Beauty/Cosmetics which made up 14.4%, the Printing/Publishing and Office Supplies sector accounted for the least represented respondents at 2.7%.

4.2 Levels of Growth and Internationalization of Small Business Enterprises

The independent variable study was growth, while internationalization is the dependent variable. Using range scale: 3.26-4.00 - High level, 2.51-3.25 -Moderate, 1.76-2.50 –Low, and 1.00-1.75 -Very Low, respondent where asked to rate questions basing on a four-point Likert scale relating to their business: 1 (Disagree) to 4 (Strongly Agree). Table 1 and 2 displays the main descriptive summary details:

4.2.1 Levels of Growth

Table 1: Level of Growth of Small Business Enterprises In Terms of Business Strategy and Direction, Sales and Marketing, Team Effectiveness, Financial Management, Systems and Processes, and Personnel Satisfaction

Key Indicator	Mean	Interpretation	Rank
Business strategy and direction	3.76	High	1
Sales and marketing	3.47	High	2
Team effectiveness	3.36	High	4.5
Financial management	3.39	High	3
Systems and processes	3.36	High	4.5
Personnel Satisfaction	3.23	Moderate	6
Total	**3.43**	**High**	

Table 1 indicates a generally high (total mean=3.43) level of growth among the respondent businesses; indicators under business strategy and direction where highest (Subtotal Mean= 3.76), while those under Personnel Satisfaction where lowest (subtotal Mean=3.23). This finding contradicts the researchers (Hatega, 2007; Kigozi, 2009), who found a low level of small business growth, underpinned by high failure rates. On the other hand the findings agree with the sentiments of the Ministry of Finance, Planning and Economic Development (2008) that claimed that businesses in Kampala district experienced a growth of 64.2% between 2000/01 and 2006/07. If growth is evident then it could mean that internationalization is inevitable (eventually) since Orser, et al. (2008) pointed out that growth opportunities associated with international markets were identified as a key driver of business internationalization.

4.2.2 Levels of Internationalization

Table 2: Level of Internationalization of Small Business Enterprises

Indicator	Mean	Interpretation	Rank
Your business:			
engages in exporting	1.61	Very Low	6
is in a joint venture with foreign firm(s)	1.52	Very Low	9.5
engages in strategic alliances with foreign firm(s)	1.51	Very Low	11
engages in franchising foreign firm(s)	1.43	Very Low	15
engages in contract manufacturing	1.52	Very Low	9.5
has foreign direct Investment(s)	1.45	Very Low	13.5
engages in outsourcing to foreign firms	1.45	Very Low	13.5
engages in importing/distribution for foreign firm(s)	2.15	Low	1
has engaged in Mergers and Acquisitions	1.63	Very Low	5
has management contracts with foreign firm(s)	1.54	Very Low	8
has licensing arrangement with foreign firm(s)	1.47	Very Low	12
has foreign owner/board members	1.60	Very Low	7
employs expatriates	1.67	Very Low	4
earns a significant amount of revenues from foreign markets	1.86	Low	2
has been engaged in foreign markets/business for a long time now	1.70	Very Low	3
Total	**1.61**	**Very Low**	

It is shown in table 2 that the level of internationalization is generally very low (mean=1.61; n=409), with exception to two indicators which are low the rest are very low. This suggests that most small business enterprises in Kampala district do not or have very limited levels of internationalizations. It can be argued that small businesses in Kampala district engage in more importing/distribution (mean=2.15) than exporting (mean=1.61) which is characteristic of the economies of most developing countries (Francois, van Meijl, & van Tongeren, 2003). Alvarez (2004) suggested that greater effort in international business, process innovation, and the utilization of export promotion programs contribute positively to export performance of small businesses, indicating that the government has a role to play. Some of the causes of the low level of internationalization may be due to what Crick (2007) highlighted as the difficulty of identifying sufficient representation in target export markets by the small businesses, along with finding an appropriate foreign market partner both of which can impediment on internationalization. in principle this study disagrees with Fryges (2004) who argued contrary to this study that good firms are or will become exporters (internationalize), because firms with superior performance (growth) will expand into the international markets, this on the other hand might point to the future promise of internationalization by small business enterprise in Kampala district, Uganda.

4.3 Testing Null Hypotheses

4.3.1 Levels of Growth and Internationalization between Age of Small Business Enterprises

The first null hypothesis of this study is there is no Significant Difference in the Levels of Growth and Internationalization between Age of Small Business Enterprises. Table 3 shows the key details:

Table 3: Levels of Growth and Internationalization between Age of Small Business

Category	Computed z-value	Critical t-value	Interpretation of Difference	Decision on Ho
Level of Growth between Age of small business*	5.86	0.00	Significant	Rejected
Level of Internationalization between Age of small businesses**	0.49	0.78	Not Significant	Accepted

*t < .05, z = 5.86; ** t > .05, z = 0.49

Table 3 shows that there is a significant difference in the levels of growth and age of small business enterprises. This finding agrees with Lu and Beamish (2004) founding a moderating effect of firm age on the relationship between internationalization and subsequent growth. Agreeing with this finding Rubenson, Millot, Farnsworth and Aroesty (1996) remarked that ageing might benefit business performance (growth) if it enables the firms to better appreciate and exploit the possibilities of new technological opportunities in related industry or sector.

4.3.2 Levels of Growth and Internationalization between Types of Industry of Small Business Enterprises

The second null hypothesis of this study is there is no Significant Difference in the Levels of Growth and Internationalization between Types of industry of Small Business Enterprises. Table 4 shows the key details:

Table 4: Levels of Growth and Internationalization between types of industry

Category	Computed z-value	Critical t-value	Interpretation of Difference	Decision on Ho
Level of Growth between Types of industry of small business*	1.99	0.02	Significant	Rejected
Level of Internationalization between of industry Types of small businesses**	2.03	0.02	Significant	Rejected

*t < .05, z = 1.99; ** t < .05, z = 2.03

Table 4 shows there is a significant difference in the levels of growth and types of industry of small business. The same is true for the levels of internationalization and types of industry of small business enterprises. These findings support the arguments by several scholars (Harris & Li, 2009; Ojala & Tyrvainen, 2007) identifying the fact that industry specific internationalization barriers exists within some sectors, export

activity being much more prevalent in manufacturing than in services sector and showing that growth rates of start-ups in high-tech sectors are significantly larger than in other sectors of the economy in several countries.

4.3.3 Relationship between the Levels of Growth and Internationalization of Small Business Enterprises

The third null hypothesis of this study is there is no Significant Relationship Between the Levels of Growth and Internationalization of Small Business Enterprises. Table 5 shows the key details:

Table 5: Relationship between the Levels of Growth and Internationalization

Variables correlated	Computed r- value	P-value	Interpretation of Correlation	Decision on Ho
Level of growth vs. Level of internationalization	-0.24	0.00	Significant	Rejected

$p < .05$, $r = -0.24$

There is a relationship between levels of growth and internationalization as shown in table 5. It also reveals a negative linear correlation between levels of growth and internationalization in small business enterprises, implying that there is a significant relationship between levels of growth and levels of internationalization and the negative correlation could mean that a rise in levels of growth can spell a drop in the levels of internationalization among the respondent small business enterprises. The findings are partly in disagreement with Bloodgood, Sapienza and Almeida (1996) which found that internationalization was fairly related with businesses that reported higher profits (growth) and Burgel, Fier, Licht and Murray (2001) which discovered that firms with international operations registered higher productivity and sales growth. Though several studies suggest that the relationship between small business performance (growth) and internationalization may be specific to countries, industries and regions. Lu and Beamish (2001) may explain the negative correlation between levels of growth and internationalization, having demonstrated in their study that internationalization modes like foreign direct investment (FDI) activity initially led to a drop in profitability in the short run, but later with greater levels of FDI profitability increases; they further demonstrated that the relationship between internationalization and firm performance (growth) is influence by other strategic variables like the choice of foreign markets.

5. Summary and Conclusions

Conclusively speaking, this study affirms that there is a significant negative correlation between growth and internationalization among small business enterprises in Kampala district, Uganda. Implying that as small businesses in Kampala district grow their chances, drive, or likelihood of internationalization decreases. It can also be observed that though the level of growth in quite high, the level of internationalization lives a lot to desire (see table 2). The very low level of internationalization among small business enterprises in Kampala district, Uganda, display the characteristics of the early starter which is a firm according to, Johanson and Mattsson (1988) that has only begun to internationalize its operations in a market environment that has a low degree of internationalization. Early starters have no experience in the international

marketplace; their suppliers and competitors have a domestic orientation, they therefore lack both the knowledge and international networks required to expand into foreign markets (Johanson & Mattsson, 1988).

Small business enterprise in Kampala district, Uganda have a long way to go, when it comes to internationalization, it is therefore an imperative that small business enterprises in Uganda aggressively try to internationalization, and on time to take advantage of the opportunities the East African integration will provide as an avenue into the global market. Though growth levels are high, the only way to sustain continuous growth would be to exploits new markets (internationalization) or else in due time the growth levels might start to recede when foreign competitors establish their presence in the Ugandan market. It is therefore recommended that not only should government increase platforms for local small businesses to internationalization, through incentives and promotion agencies, but small business owners should also incorporate internationalization in the strategy and direction and engage it from the inception of their businesses.

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