The Influence of Firm Characteristics on the Relationship between Foreign Market Entry Strategies and Financial Performance of Listed Multinational Firms in Kenya

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Abstract—The main objective of this study was to establish the influence of firm characteristics on the relationship between foreign market entry strategies and the financial performance of multinational firms in Kenya. The study was hinged on Resource-Based View as a theoretical foundation. The literature revealed that numerous studies had been conducted on the influencing factors of firm characteristics such as Size and Age on the financial performance of multinational firms. However, these studies did not put into consideration of other possible factors such as firm characteristics and indicators such as age, liquidity and leverage. More so, the studies did not consider firm characteristics as a possible influence of the direct relationship between choice of entry strategies and financial performance of multinational firms. The study utilized a cross-sectional study design which adopted both analytical and descriptive type of studies. Secondary data was used to obtain the desired information from the multinational firms’ annual reports for the financial years 2017, 2016, 2015, and 2014. The study focused on only the publicly listed multinational firms in the Nairobi Security Exchange. Data was obtained from all the 62 listed firms. The study used Sales Growth, ROA, ROE, and ROCE to measure financial performance. Age, Liquidity, and Leverage were used as indicators of firm characteristics with leverage and liquidity further measured as Debt-Equity ratio and Current Assets Ratio respectively. Foreign market entry strategies were measured using Franchising, wholly-owned subsidiaries, Acquisition, and Joint Ventures. The results of the study showed that an interaction between firm characteristics and foreign market entry strategy significantly affected the direct relationship between foreign market entry strategies and the financial performance of multinational firms. The study concludes that firm characteristics have a positive effect on the financial performance of multinational firms through the influence of their choice of entry into foreign markets. It is recommended that multinational firms with desires to expand globally should use their global footprint to maximize on their international operations through leverage activities. In addition, policies governing the liquidity of companies to be revised in order to increase financial performance if previously they affected it. For the study was only limited to the publicly listed multinational institutions, future researchers should consider studying all the multinational firms operating in Kenya. The study provided a contextual understanding of the Resource-Based View. This theory tried to bring in views on choosing the right entry strategy into foreign markets based on the familiarity or unfamiliarity of a foreign market setting given the resources available to a firm. Findings also provided key ingredients for policymakers to embark on an integrated policy formulation in the full understanding of the interplay of a firm’s unique characteristics as far as multinational firms are concerned. And in practice, global business management should be in a better position to identify the right entry strategies into new markets that would yield them great financial profits.

Index Terms—Firm Characteristics, Foreign Market Entry Strategies, Multinational Firms, Financial Performance

I. INTRODUCTION

A major concern for most organization is their performance, be it in the global or local platform [4]. More particularly, multinational firms can only survive in unfamiliar territories if their financial performance is high, an indication that their resources are being utilized efficiently and effectively. A firm that constantly performs poorly will ultimately not survive in any kind of environment while a firm that performs well financially has a higher chance of growing locally and outside its borders [3]. Performance of multinational firms has been studied far and wide by different scholars. Little is known on how a firm’s attributes directly or indirectly influence the operations of a firm that leads to successes or failures in the market [26]. The only recurrent theme in international business management is performance of multinational firms [3]. All decision makers in business-oriented organizations are keen on how the firm performs and how it can use its resources to attract new resources globally if one of its key strategies is to expand beyond its borders [3]. How a firm performs can be conceptualized as the capability of a firm in coming up with acceptable outputs. Performance can be categorized into three different levels within a firm [9]. They include financial performance, organizational sustainability and non-financial performance [3]. A multinational firm will decide to go global through a product or market expansion or through a round-up of strategies including exporting, franchising, joint ventures, wholly owned subsidiaries, acquisitions etc. [6]. Researchers have argued that different kind of entry strategies will utilize different amount of resources depending on their involvement in full implementation. It is in this case that the level of involvement a firm has in foreign markets will be determined by the difficulties of the chosen mode of entry [9]. Depending on the unique characteristic of the firm that stands out, the choice of entry will control the amount of resources to be utilized in its global operations, i.e. whether to leverage in order to increase its financial returns or the risks it has to bear for its foreign operations and how to use available knowledge in selecting the right entry strategy in order to achieve high financial

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performance [17]. Multinational corporations will size up their financial performance through their global subsidiaries by allowing them to come up with ways of measuring performance [24]. Different managers on different regions where the subsidiaries exist will come up with ways in which they can examine performance [24]. Firm characteristics had the potential possibility of influencing the relationship between the choice of an entry into foreign markets a firm uses and how it eventually performs on the novel market [14]. The article will focus on the financial performance of an organization. The article will also examine the theoretical link that exists between firm characteristics and how they influence the relationship between foreign market entry strategies and performance. Empirical studies on the structure and capital related firm characteristics will be examined as well.

II. CONCEPTUALIZATION OF TERMS

A firms’ characteristics has been defined based on different dynamics. Some studies have defined a firms’ characteristics as the various attributes that makes it stand out from the rest. Other studies have stated that firms’ characteristics are the unique features and qualities that belongs to a particular organization. The attributes that sets a firm different from other organizations are the different criteria they use in conceptualization and capitalization [18]. The resources and objectives of a firm are regarded as the firms’ characteristics and they in one way or another influence the performance of any particular firm [13]. These resources and objectives vary from firm to firm and their variability play important roles in the success of the business. The three most common categories of objectives are structural objective, market objective and capital objective [20]. Under structural objectives which is also known as the structural firm characteristics, the attributes include ownership, size and age of the firm. Market related unique chermistics include the type of industry, environmental factors and uncertainty while capital related characteristics include liquidity, leverage and capital intensity [20]. In order to achieve its objectives, this article will focus on the structural and capital related firm characteristics which includes a firm’s age, liquidity and its leverage.

Leverage is defined as the process in which a firm uses borrowed capital to fund its investment activities such as expanding its assets in order to increase its returns [25]. This is a strategy used by firms to expand their asset base by ploughing back the borrowed capital with the sole intention of increasing financial returns. When a firm uses borrowed funds to undertake a project in investment, the expectations for the project to multiply into potential returns. Big multinational firms tend to use borrowed capital to expand into different foreign markets. It is a strong indicator of a firm’s financial performance since a firm will only borrow if it has the financial muscle to pay back [25]. If the investment project does not pan-out, multinational firms face potential investment losses. Multinational firms tend to use leverage in enhancing their market dominance in foreign markets [22]. Leverage has been used by both multinational firms and investors. Multinational firms in particular are known to use leverage to finance their operations in international markets [25]. When a firm decides to enter a particular foreign market through acquisition, whole owned subsidiary or exportation, such a firm can increase its international presence with subsidiaries through debt financing to increase shareholder value. On the other hand, this method of investing abroad can also increase the firm’s risk of falling into bankruptcy if its debts are more than its equity. The age of the firm refers to the number of years the firm has been in operation. Older firms have an upper hand in managing their debt as they’ve been in operation longer as opposed to younger firms whose financial structure is still growing. A firm’s age is likely to affect its financial performance through its reputation or image. However, little is known about the direct relationship between age of a firm and its financial performance [36]. They further state that just like organisms, firms can be compared to living things. They go through a cycle of transformation and each cycle has a unique attribute related to performance [38]. A firm’s age generally can mean that its importance in the market is placed on its unique operational activities that sets it apart from the others. Old firms such as Google, IBM, Coca Cola, Toyota, etc. have gone through several transformations in that through their years of operations, they have accumulated physical resources such as plants and equipment, advanced technology in production that have enabled them to explore foreign markets through the respective entry strategies they used to enter the global market [38]. As the firm’s age increases, so does its experience in doing business abroad increase through the different experiences gained from operating in different markets. As a result, they are able to maximize on their strategic efforts. Young firms are likely to suffer a liability of newness in foreign markets as they tend to face the effects of learning how to operate in foreign markets. A firm’s age will directly influence its financial performance if it uses its market reputation and gained experience to acquire more business leads [26]. Age on the other hand is known to have negative effects on the financial performance of firms as with passage of time, its physical assets will begin to decline in value affecting its rental income further extending to poor financial performance. Rise in operational costs, poor debt-equity ratios and slow growth can lead to a decline in performance as the firm grows older. Firm liquidity has been known to affect performance of firms. Liquidity is the ability of a firm to quickly meet its financial obligations with its liquid assets in either long-term or short-term. Liquidity is defined as the ability that a firm a possesses in converting its assets into liquid cash without compromising its market price [18]. A firm is therefore said to be liquid if it’s able to quickly sell or buy an asset at its market value. A firm’s liquidity will impact its performance in particular multinational firms with highly liquid assets can easily convert their assets into cash thus making it easier for them to meet their financial obligations as opposed to firms with assets that are less liquid.

III. RESEARCH PROBLEM

The characteristics of a firm are considered to be its structural foundation and its common elements that governs its successes, failures, rise or decline in its performance [5]. Elements such as leverage of the firm, firm liquidity and age
of the firm influences the type of entry strategy a multinational firm should use to enter new markets. These resources defining the operational activities on foreign markets can potentially have a lasting effect on the financial performance especially if the choice to enter was made blindly and with less consideration. Different multinational firms gather resources and the ability to efficiently run their businesses in foreign firms at different pace and speed. While a firm’s age will affect the quality and quantity of resources employed in its operations, the effect will eventually influence the entry mode a firm should use to enter a new foreign market and how it will perform in a new environment. Performance of firms which is considered to be the output of business activities is comparable to firms’ resources input in its operations. When considering age of firms, is it that the older the firms grow, the less it is for them to achieve their purpose and objectives in full? Does the amount of resources a firm possesses correspondents with its performance in a foreign market? And more so, is the mode of entry influenced by the amount of resources a firm has? Firms tend to witness their best performance when the characteristics the firm identifies with are at optimal. Meaning, when the firm is liquid enough or its borrowing abilities is self-sustainable or when at old age or early on in its operations abroad. Over time, they will reinvent their strategies and reincarnate their purposes of expanding their operations beyond their physical boundaries. But with all the structures and designs put in place for successful interventions, financial performance of multinational firms operating subsidiaries in foreign markets should be focused to fulfill the set goals and objectives of going global. Does firm characteristics influence the choice of entry strategies into foreign markets and performance of multinational firms? This is the theoretical assumption. The paper will examine the above problem.

IV. RESEARCH OBJECTIVES
The objective of this study is to establish the influence of firm characteristics on the relationship between foreign market entry strategies and financial performance of multinational firms in Kenya.

V. LITERATURE REVIEW
To answer the study question in this study, significant literature will be reviewed on the variables of the study. A review of the theory relevant to this study will also be discussed in this section. Scholars take and views on the theory will also be established.

VI. THEORETICAL FOUNDATION
The study will be hinged on Resource based view as the anchoring theory. Known for RBV of the firm, a firm will leverage its resources and capabilities into gaining competitive advantage [8]. The author argues that resources and merchandise are two variables that must go together. Within the RBV perception, there are two segments that are considered when selecting an entry strategy into foreign markets. Either the multinational firm is conversant with the actions of the new market and the firm holds the necessary resources and competencies to function in a foreign land or the activities in the new market are completely unfamiliar to them but they are investing anyways. i.e. the firm holds no competencies but has to partner with another company in the host country to establish its footing [15].

This theory is relevant to the study because while firms are planning to increase their performance or their global footprint, they will need to deploy the actual resources that will enable them achieve this objective. Age of the firm being an element of a firm’s resources, is considered to be in the scope of theorized relationship between the available resources and financial performance for the appropriate market dominance.

VII. EMPIRICAL FRAMEWORK
Previous studies on Resource Based View identified the characteristics of a firm in relation to its performance [5]. The association between firm characteristics such as age, size, and the capital structure and the financial performance of manufacturing firms was studied in Turkey [35]. Two foreign market entry strategies which included independent market positions and level of control were identified. According to the authors, exporting was one of the most popular entry strategies and was locally located but with minimal market control [2], [9].

Control levels differ with foreign licensing as the overseas activities within the subsidiary of the parent firm can only be contractually controlled. Wholly Owned Subsidiaries however commanded a high level of administrative control as the firms located in foreign markets demanded full time management [32], [19], [23].

Sales growth, return on assets and return on equity of a firm were one of the most acknowledged determining factors of financial performance and were as well considerably connected to business performance [26], [38]. The relationship between age and financial performance had been widely put to test with incredulous results. The authors took the view that older firms were alleged to be more efficient [37]. Additionally, older firms were believed to have access to capital and financial market information as opposed to newer firms whose newness seemed to work to their disadvantage [38].

The age of the firm significantly determined its performance. As per the existence cycle impact, younger organizations were progressively unique and more unstable as far as they could tell than more older firms. They emphasized that development got steadiness growth as firms adapted all the more unequivocally their market situations, cost structures and productivity levels [34].

That the determinants of firm performance had for quite some time been of focal enthusiasm to vital authors and that business performance was frequently characterized just as far as yield, for example, evaluated goals or productivity. This covered the accomplishment of anticipated levels just as target setting and audit. The agenda was to carry out a study on this relationship remembering that in the event that if the characteristics of a firm were appropriate, the normal degrees
of yield would be accomplished [30]. Performance achievement and failures were taken as the two parts of the bargain’s continuum [29].

Research on internationalization had identified a firm’s characteristics as a critical dimension that influenced the overall success of the business [4], [7], [20]. Specifically, the age of the firm was shown to have a significant effect on foreign market entry strategies [1], [11], [12]. The authors pointed out that as firms acquired global experience, the degree of vulnerability in regards to working in new foreign market sectors would decrease, which, thus, improved the probability that such firms would utilize significant expense/high control choices of entry [10], [12], [27]. A company’s income and revenue are influenced by its liquidity structure, for example, current ratio. Their discoveries uncovered that a company’s monetary exhibition was contrarily affected by an expansion in real money change cycle [10].

Previous studies on liquidity structures revealed mixed results. A study done on the effect of liquidity structure on profitability of 263 randomly firms recorded on the Bombay Stock Exchange during 2002 to 2008 found a noteworthy relationship between liquidity and profitability despite the fact that the connection between money change cycle and profit for resource was not factually critical [31]. These findings were corroborated with a study that established that there was a significant relationship between profitability and liquidity structure of a firm [12]. The author further pointed out that a firm’s current ratio which is measured by liquidity and its profitability could be explained by the fact that idle funds, especially the borrowed ones had the capacity to generate more profits and incurred less cost to the business [12]. In contrast to this, a discovery on poor relationship between the different forms of liquidity and profitability of a firm was made [7]. The study did not bring to light other characteristics of the firm such as age and leverage. A further negative relationship between a firm’s financial performance and its liquidity structures was found [27]. A short coming on their study was the fact that it only paid attention to the short-term financial decisions.

VIII. RESEARCH METHODOLOGY

Cross-sectional study design was adopted for this study. The design was deemed fit for it was to examine the relationship between the variables as they existed in the defined census over a short period of time i.e. for the years 2017, 2016, 2015 and 2014 which made up the source of data from the respective years’ audited reports. The cross-sectional design adopted both descriptive and analytical types of studies. A descriptive study was desired because the population of the study was defined in a single country. An analytical study type was also preferred to help with coming up with substantial conclusions as to the relationship between the variables.

This design was also favourable for the data collected would help in drawing conclusions in the current population. It would also allow for several variables to be studied at the same time. All the multinational firms listed in the Nairobi Securities Exchange in Kenya (n=62) was obtained from the NSE website. The study utilized only secondary data which was fetched from the annual reports and financial statements of the respective multinational firms operating in Kenya. Data was then collected, analysed and reported using quantitative methods. Use of interaction effects was used to test the moderating effect of the moderator on the relationship between the independent and the dependent variable. The study variables, firm characteristics, foreign market entry strategies and firm performance were measured as; To measure performance, the study used sales growth, Return on Equity, Return on Assets and Return on Capital Employed. Ease of computation of the measurements informed the choice to use them. Firm age was measured by the number of years a multinational firm had been in operation up until the years the current study considered. Current Ratio and Debt Equity Ratio were chosen to represent Liquidity and Leverage as additional attributes of the firm. Foreign entry strategies were measured using exporting, Franchising, Joint Ventures and Wholly Owned Acquisitions.

IX. RESULTS

The findings of the inferential statistics based on the objectives of this study were presented in this section.

X. FIRM CHARACTERISTICS AND PERFORMANCE OF MULTINATIONAL FIRMS

To determine the impact of firm characteristics on the relationship between foreign market entry strategies and the financial performance of multinational firms that made up the census of this study, the interaction terms in regression analysis from Stata Software was used to find out the outcome of the main effect. The census population of this study was all the 62 publicly listed multinational firms in the Nairobi Security Exchange. The list of firms was obtained from NSE’s website and verified from their Handbook of 31st December 2019. Financial data required was available from the yearly financial and annual reports from the websites of all the firms used in the study.

For a proper focus of performance, data from their financial performance trend from 2015 to 2017 was used. From figure 4.1 below, in consideration of firm characteristics, the average debt-equity ratio of multinational firms declined from 2.25 to -0.88 from 2015 to 2017 respectively. This means firms exhibited a declining trend in debt financing and moved from being highly levered to financial instability. The average current ratio increased from 1.97 to 2.18 to 2.10 from 2015 to 2017 making most of the multinational firms in this trend liquid.

Performance of multinational firms had an upward and downward trend. The average sales growth declined from the year 2015, 2016 and 2017. This could mean that the demand of products sold by multinational firms in Kenya decreased and hence a decline in sales. Return on Assets had a slight increment from 0.05 to 0.06 further decreasing to 0.04 in 2017. Return on Capital Employed and Return on Equity had a similar trend.
C. Interaction Between Age and Foreign Market Entry Strategies

Adding an interaction term of age on foreign market entry strategy significantly changed the effect of mode of entry on sales growth (p<0.05). The average sales growth of MNCs with franchise outlets, wholly owned subsidiaries and acquisitions was significantly higher (p ≤0.05) than those carrying out exporting by about 1 unit. However, this effect was reduced with the introduction of an interaction term. Table 4.1 shows the interaction of age and foreign market entry strategy.

### TABLE I: INTERACTION OF FIRM CHARACTERISTICS AND FOREIGN MARKET ENTRY STRATEGIES

| Sales Growth | Coef. | P>|t | 95% Conf. Interval |
|--------------|-------|----|-------------------|
| Current Ratio | 7.73  | 0.00 | 3.91 | 11.55 |
| Entry strategy | Franchise outlets | 8.42 | 0.00 | 3.99 | 12.86 |
| Wholly owned subsidiary | 8.40 | 0.00 | 3.97 | 12.84 |
| Acquisition | 8.49 | 0.00 | 4.01 | 12.97 |
| Entry strategy# current ratio | Franchise outlets | -7.73 | 0.00 | -11.54 | -3.91 |
| Wholly owned subsidiary | -7.73 | 0.00 | -11.55 | -3.92 |
| Acquisition | -7.76 | 0.00 | -11.58 | -3.94 |
| _cons | -8.35 | 0.00 | -12.79 | -3.92 |
| R-squared = 0.4270 |
| Debt Equity Ratio | 0.70 | 0.00 | 0.37 | 1.03 |
| Entry strategy | Exporting | Franchise outlets | 1.11 | 0.01 | 0.26 | 1.96 |
| Wholly owned subsidiary | 1.04 | 0.01 | 0.24 | 1.85 |
| Acquisition | 0.98 | 0.03 | 0.11 | 1.85 |
| Entry strategy# debt equity ration | Franchise outlets | -0.72 | 0.00 | -1.14 | -0.31 |
| Wholly owned subsidiary | -0.69 | 0.00 | -1.03 | -0.36 |
| Acquisition | -0.68 | 0.00 | -1.03 | -0.34 |
| _cons | -1.00 | 0.02 | -1.81 | -0.20 |
| R-squared = 0.4675 |
| Age | 0.02 | 0.00 | 0.01 | 0.04 |
| Entry strategy | Franchise outlets | 0.67 | 0.09 | -0.11 | 1.46 |
| Wholly owned subsidiary | 0.56 | 0.08 | -0.06 | 1.19 |
| Acquisition | -0.18 | 0.93 | -4.20 | 3.84 |
| Entry strategy# age | Franchise outlets | -0.02 | 0.00 | -0.04 | -0.01 |
| Wholly owned subsidiary | -0.02 | 0.00 | -0.04 | -0.01 |
| Acquisition | -0.02 | 0.48 | -0.06 | 0.03 |

XI. INFLUENCE OF FIRM CHARACTERISTICS ON THE RELATIONSHIP BETWEEN FOREIGN MARKET ENTRY STRATEGIES AND FINANCIAL PERFORMANCE

A. Interaction Between Current Ratio and Foreign Market Entry Strategies

Adding an interaction term of current ratio on foreign market entry strategies significantly changed the effect of choice of entry on sales growth (p<0.05). In particular, the average sales growth ratio of MNCs with franchise outlets, wholly owned subsidiaries and acquisitions was significantly higher (p ≤0.05) than those carrying out exporting by about 8 units. However, this effect was drastically reduced to approximately -8 respectively following the inclusion of the interaction term. Table 4.1 shows the interaction of current ratio and foreign market entry strategies.

B. Interaction Between Debt-Equity Ratio and Foreign Market Entry Strategies

Adding an interaction term of debt equity ratio on foreign market entry strategies significantly changed the effect of choice of entry on sales growth (p<0.05). The average sales growth ratio of MNCs with franchise outlets, wholly owned subsidiaries and acquisitions was significantly higher (p ≤0.05) than those carrying out exporting by about 8 units. However, this effect was drastically reduced to approximately -8 respectively following the inclusion of the interaction term. Table 4.1 shows the interaction of debt ratio and foreign market entry strategies.
The results of this study show that an interaction between firm characteristics (age, current Ratio and Debt Equity Ratio of the firm) and foreign market entry strategies significantly moderated the effect of choice of entry strategy on sales growth. In particular, the average sales growth ratio of MNCs with franchise outlets, wholly owned subsidiaries and acquisitions was significantly higher than those carrying out exporting. However, this effect was significantly reduced by the interaction of current ratio on choice of entry.

In the same manner, the average sales growth ratio of MNCs with franchise outlets, wholly owned subsidiaries and acquisitions was significantly higher than those carrying out exporting. However, an inclusion of debt equity ratio as an interaction term between choice of entry and sales growth reduced the effect. Similarly, the average sales growth of MNCs with franchise outlets, wholly owned subsidiaries and acquisitions was significantly higher than those carrying out exporting. However, this effect was significantly reduced by the interaction between age of the firm and foreign market entry strategy.

Age of the firm was shown to have significant ramifications for entry strategy determination [1]. It was contended that the degree of vulnerability in regards to working in foreign market decreased with older firms that had increasingly global experience, which, thusly, improved the probability that such firms would utilize significant cost/high control passage systems. Correspondingly, more youthful firms with less global experience were bound to enter a foreign market through a joint venture as a way of sharing the risks [39].

XIII. CONCLUSION AND RECOMMENDATION

Previous studies have considered firm characteristics as an important aspect in internationalization processes. In essence, a multinational firm with prior knowledge about the foreign market they intend to invest in would be in a better position to establish as a whole owned subsidiary than a through joint venturing where the firm would have to rely on information provided by its joint partner. Several studies done in this field found that multinational firms with the intentions of expanding abroad are more likely to choose an entry mode that resonates with the amount of resources they have at hand [16], [20], [28].

The study therefore provides a solution to the research problem which sought to determine the moderating effect of firm characteristics on the relationship between foreign market entry strategies and financial performance of listed multinational firms in Kenyan. Conclusively, the findings of this study imply that firm characteristics has a significant effect on the financial performance of multinational firms and should be considered as an important determinant when entering new firms. From the findings, it is recommended that international expansion and development decisions should be chiefly set on by the management team.

It is also recommended that multinational firms operating in Kenya with a bigger competitive advantage should use their position as global companies to maximize on the international investments through debt equity financing. In addition, policies governing liquidity and other short-term financial obligations should be revised to increase financial performance and improve shareholder relationship.

XIV. AREAS OF FURTHER RESEARCH

This study was limited to only the listed multinational firms operating in Kenya. Future researchers might consider incorporating all the multinational firms operating in Kenya including the ones that are not listed in Nairobi Security Exchange. In addition, other variables that describes the characteristics of a firm could be introduced. In essence, diversification, size and firm ownership which could have an effect on the financial performance of multinational firms. A longitudinal research design for this kind of study to properly enhance the understanding of the dynamics beneath a firm’s characteristics, choice of entry mode into foreign markets and their financial performance.

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