Foreign Connection: Foreign Workers and Internationalization among Small Business Enterprises in Kampala, Uganda

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Abstract: The study explored the effect of foreign worker on small business internationalization. A standardized questionnaire with a four point Likert scale was used to collect data, the data collection instrument had a content validity ration (CVR) value of 0.75 and a Cronbach alpha of 0.76 (α=0.756). Using a sample of 193 small businesses, the hypotheses were tested: (i) there is a significant difference in the levels of internationalization among businesses that employee foreign worker and those that don’t, and (ii) there is a significant positive relationship between foreign workers and internationalization. Both hypotheses were accepted. The findings reveal that there is a significant difference in internationalization among businesses that employ foreign workers and those that don’t employ foreign workers; there is also a significant positive relationship between employment of foreign workers and small business internationalization. The magnitude of the effect size was very large (d = 0.194). The suggestion was made that small businesses should consider employing some foreign workers with strong competence useful for internationalization.

Keywords: Foreign workers, Internationalization, Small Business, Uganda.

I. INTRODUCTION

A central aspect of globalization is international migration of personnel. The fact that today’s knowledge based economies rely on people with high skill levels means that most policy makers and business leaders are looking significant interest at these talent movements (OECD, 2001). It has been argued that economies that are superior at attracting international knowledge workers are more able to respond to recurring key labor market shortages, augment the level of human capital, promote the transmission of the knowledge personified in highly skilled workers and thus encourage innovation (OECD, 2001). The knowledge these foreign workers posses can include that of internationalization.

Small businesses being major drivers of economic development might be able to benefit from this phenomenon (Osunsan & Sumil, 2012), and in so doing enhance their potency in solving issues such as unemployment, high failure rate, limited access to financing, poor tax remittance, stagnant innovation among other (MFPED, 2008; Kigozi, 2009). The employment of foreign workers could help small businesses internationalize. Cerrota & Piva (2010) suggested that as global markets become more integrated and interdependent, all firms, including small businesses will be obligated to develop a deliberate response to international rivalries. It is argued that internationalization is factored a significant way of ensuring SMEs’ long-term growth and survival (Cerrota & Piva, 2010). This said the debate on factors influencing the international development of small enterprises is vibrant, and research in this field has generated significant interest (Bell, Crick & Young, 2004; Fernandez-Ortiz & Lombardo, 2009; Sommer, 2010; Osunsan & Sumil, 2012). However very limited studies in this field have explored the context Africa (Tesfayohannes, 2012; Osunsan & Sumil, 2012) and none has explored the effect of foreign workers (expatriates) on small business internationalization. In this study we do not focus on expatriates, though similar to foreign workers since they normally have no permanent residential status in the host country (West & Bogumil, 2000). The difference rests in the fact that expatriates are sent on overseas assignments with backing from a home country organization (West & Bogumil, 2000; Ang, van Dyne & Begley, 2003). This study therefore sought to identify the effect of foreign workers on internationalization of small business enterprises in Kampala, Uganda.

The structure of this paper is as followed: section two consists of the reviewed literature, which explains variables and states the hypothesis of the study; section three shows the methodology adopted; section four displays and explains the key findings, analysis and hypothesis testing of the study; section five provides the conclusions.
II. LITERATURE REVIEW

Foreign workers
Mohamed, Ramendran & Yacob (2012) pointed out that a foreign worker is a person who is employed in a country he is not a citizen of, on a temporary basis. They further indicated that foreign workers are recruited by the businesses, recruitment agency or hired while they were looking for gainful employment. Thus supplementing the labor force of that nation for a period of time or to supply capability on a contractual basis that the nation seeks. The foreign workers include legal and illegal, skilled and unskilled workers within the country (Mohamed, et al 2012). In this study we adopt West & Bogumil (2000) conceptualization of a foreign worker. Therefore a foreign worker is defined as an employee who has no permanent resident status in the host country (Uganda) and who sought overseas employment without support from any firm in the nation of origin.

Internationalization
Internationalization is the degree to which a firm is engaged in international business (Kiran, Majumdar & Kishore, 2013) and is the dependent variable in this study. It includes exporting, the existence of foreign subsidiaries, share ownership by foreigners and the appointment of foreigners in the organizational structure (Chelliah, et. al., 2010). Ciszewska-Mlinaric & Mlinaric(2010), citing Javalgi, Griffith, & White (2003) defined internationalization as; “a process through which a firm moves from operating solely in its domestic marketplace to international markets” (p.239).

Measuring the levels and degree of internationalization has various and diverse views and approaches (Osunsan & Sumil, 2012). Small businesses internationalization has been measured through diverse means which include networking with foreign firms, accessing foreign countries through trade fairs, exporters and publications; as well as entering into joint ventures, licensing arrangements and subcontracting (Pollard, 2001). Contractor, Kundu & Chin (2003) measured internationalization through the hybrid collective weighted sum of FSTS (foreign sales/total sales), FETE (number of foreign employees/number of total employees) and FOTO (number of foreign offices/number of total offices). It has been emphasized that single-item measures such as firms' foreign sales to total sales (FSTS) or foreign assets to total assets (FATA) or the number of foreign subsidiaries do not capture the multi-dimensionality of internationalization. Manolova, Brush, Edelman & Greene (2002), for example, measured internationalization on the basis of firm activities such as import, direct export, export through an intermediary, solo venture direct investment, joint venture direct investment, licensing of a product or service, contracting and, franchise. A similar approach was used by Ogbeuhi & Longfellow (1994). Ogbeuhi & Longfellow (1994) operationalized the internationalization of American manufacturing small businesses as the duration of time the firms have been involved in exporting.

This study adopted Manolova, et al. (2002) approach to measuring internationalization. That is based on firm activities such as direct export, export through an intermediary, direct investment, joint venture, licensing of a product or service, contracting, and franchise among others.

Foreign workers and internationalization
Several scholars (Hatzigeorgiou & Lodefalk, 2013; Malchow-Møller, Munch & Skaken, 2011; Beaverstock & Hall, 2012) pointed out the influence foreign workers can have on business. In fact Malchow-Møller, et al (2011) found that in Denmark, employing foreign experts enhanced the probability of exporting the following year by 2.7 percentages. A similar sentiment was echoed by Beaverstock and Hall (2012) who stressed that the international competence and expertise that foreign workers can offer in several sectors can boost a nations economy. Rolfe, Rienzo, Lalani, & Portes (2013) identifies three key ways foreign workers can influence productivity and economic growth: (i) boost the human capital stock of the host country, (ii) increase labor productivity, and (iii) influence the way businesses operate, which can include the drive to internationalize.

Groot, van Gessel & Raspe (2013) found that foreign knowledge workers are much more likely to work for an internationally oriented firm, in terms of: (i) foreign control, a subsidiary of a foreign company and/or (ii) international trade such as exporting. Groot, et al (2013) also pointed out that foreign knowledge workers largely use their ‘talents’ in local firms, are very industrious, earn more than local employees, and are regularly employed at internationally operating or exporting firms. Nowrasteh (2010) argued that highly skilled foreign workers are major a major source of innovation, citing Google, Yahoo!, Intel, eBay, and several Silicon Valley firms. Nowrasteh (2010) asserts that highly skilled foreign workers are characteristically very educated, young, receive high levels of compensation, do not consume social programs, and are not prone to committing crimes. Cerrota & Piva (2010) found that the existence of foreign shareholders in the firm has a significant positive effect on internationalization. Consequently, the following hypotheses can be formulated:

H2: There is a significant difference in the levels of internationalization among businesses that employ foreign worker and those that don’t.

H2: There is a significant positive relationship between foreign workers and internationalization.

III. Methodology
Empirical analysis was carried out using a sample of 193 small businesses in Kampala Uganda, that employee between 4 and 51 employees. This study adopted an ex post facto, descriptive correlation, descriptive
comparative and cross-sectional survey design. After the 409 questions were collected, 193 respondents were retained. While 216 were eliminated on the basis of industry sector that show less propensity or likelihood to internationalize (Abdullah & Zain, 2011; Matenge, 2011; Zizah, 2010) in the Ugandan context. The sample size requirement as stipulated by Slovin’s formula (Dionco-Adetayo, 2011), considering a margin of error of 10%. This is still within the conventional level as confirmed by Santos, Buskirk, and Gelman (2012); they assert that confidence levels used in a margin of sampling error are typically set at 90, 95 and/or 99 percent. Rooks & Sserwanga (2009) argued that a robust sample is hard to acquire in studies involving small businesses in Uganda, because most of them are not registered. This study therefore used purposive, quota and simple random sampling techniques in ensure robustness. The purposive sampling was utilized to select the respondents based on these criteria: (i) the administrative divisions of Kampala; (ii) legally registered; and (iii) employs 5 or more and 50 or less people.

Using the content validity ratio - CVR (Lawshe, 1975); CVR= \((n_c – N/2)/ (N/2)\). Where CVR is the content validity ratio, ne is the number of experts rating question as ‘relevant’, N is the total number of experts. Lawshe (1975) argued that in the case of eight (8) subject matter experts, a minimum CVR value of 0.75 is acceptable; this is also confirmed by Allahyari, Saburi, and Keshavarz (2011). The CVR for internationalization questionnaire was 0.88. The overall alpha for internationalization as provided by SPSS was 0.76 (α=0.756). This met the required minimum reliability coefficient of 0.70 or higher and is considered “acceptable” as is the case in most social science research situations (Creswell, 2003).

An independent sample t-test was used to test hypothesis one (H₁) and the guidelines (proposed by Cohen, 1988) for interpreting eta square (d) value is: 0.01=small effect, 0.06=moderate effect, 0.14=large effect, was used. A simple regression analysis to test hypothesis two (H₂).

IV. FINDINGS

DIFFERENCE IN INTERNATIONALIZATION OF BUSINESSES THAT EMPLOYEE FOREIGN WORKER AND THOSE THAT DON’T.

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<th>(a) Group Statistics</th>
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<td>Internationalization</td>
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<td>No Foreign workers</td>
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<td>Foreign workers</td>
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<th>(b) Independent Sample Test</th>
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<td>t-test for Equality of Means</td>
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<td>Internationalization</td>
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95% Confidence Interval of the Difference

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<td>-0.714</td>
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*p < .05. **p < .01.

An independent-samples t-test was conducted to compare the internationalization scores for businesses that employ foreign workers and those that don’t. Given a violation of Levene’s test for homogeneity of variances, F (1,191) =7.69, \( p = .006 \), a t-test not assuming homogeneous variances was calculated. Therefore equal variances not assumed.

There was a significant difference in the levels of internationalization of businesses that employ foreign workers \((M=2.27, SD=0.51)\) and those that don’t employ foreign workers \([M=1.73, SD=0.41]; t (66.511) = -6.77, p=0.00]\). The magnitude of the differences in the means was very large \((d = 0.194)\).

These results suggest that foreign workers do really have an effect on internationalization. This result specially suggests that when a small business employs a foreign worker, internationalization levels increase. On the basis of this finding, we can accept our hypotheses: there is a significant difference in the levels of internationalization among businesses that employee foreign worker and those that don’t (H₁).

Relationships between foreign workers and internationalization.

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<th>(a) ANOVA</th>
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To ascertain the relationship between foreign worker(s) and small business internationalization, a simple regression was carried out. The regression sought to determine whether internationalization (dependent variable) could be predicted from foreign workers (independent variable). The results of the regression indicated the predictor (foreign workers) explained 23% of the variance in internationalization (R²=0.23, F (1,191) = 56.86, p<0.01). It was found that foreign worker(s) (β = 0.48, p<0.01) significantly predicted internationalization. On the basis of this finding, the hypothesis: there is a significant positive relationship between foreign workers and internationalization (H₂) is accepted.

These findings could be explained by Nowrasteh (2010); Cerrota & Piva (2010); Hatzigeorgiou & Lodefalk (2013); Malchow-Møller, et al (2011); Beaverstock & Hall (2012); and Rolfe, et al (2013), who all pointed out that foreign workers add a unique dimension to organizations and businesses that are part of; some of these dimensions include innovation, productivity and of course internationalization to mention a few. This can be further qualified by the network model which stipulates the need for relationships to initiate internationalization (Johanson & Mattsson, 1988; Johanson & Vahlne, 2009). This relationship can come in form of a foreign worker, his or her knowledge of her country of origin, and the networks he or she possesses.

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### V. CONCLUSION

This study sought to explore the effect of foreign workers on small business internationalization, by testing the hypotheses: (i) there is a significant difference in the levels of internationalization among businesses that employee foreign worker and those that don’t, and (ii) there is a significant positive relationship between foreign workers and internationalization. The findings of the study suggest that there is a significant difference in internationalization among businesses that employ foreign workers and those that don’t employ foreign workers. The study also indicated that there is a significant positive relationship between employment of foreign workers and small business internationalization. This implies that the existence of foreign workers can stimulate internationalization among small businesses. It is therefore suggested that small businesses should be encouraged to employ ‘some’ foreign workers. Ideally those with strong competence, knowledge and networks in foreign markets; these workers can facilitate the internationalization process.

### REFERENCES


[30]. Santos, R., Trent Buskirk, T., & Gelman, A. (2012), Understanding a "credibility interval" and how it differs from the "margin of sampling error" in a public opinion poll,