INTERNATIONALIZATION STRATEGIES USED BY SMALL AND MEDIUM ENTERPRISES IN KENYA

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DECLARATION

This research project is my original work and has not been submitted for a degree in any other university.

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This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this project to my late beloved wife Caro; daughter Christine; son Jonathan; and Nancy who were my inspiration to complete my MBA studies. They have been by my side throughout the Programme and believed I could. Their encouragement saw me through the Programme.

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ABSTRACT

This study sought to investigate the process of internationalisation strategies pursued by Kenyan SMEs. The study also was aimed at establishing how business strategies interact with and impact upon the internationalisation decisions of SMEs. Thus the research therefore was to find out strategies used by Kenyan SMEs firms in internationalisation. The research focused on small and medium enterprises.

A review of literature to establish if similar studies had been carried out in the past. A structured questionnaire was used too collect the relevant data which will be used to summarize the findings and draw conclusions. The respondents responded positively and the data collected was used to draw meaningful conclusions

Descriptive statistics such as frequency distribution, percentages. and means were presented using tables and graphs. Qualitative data from open questions was analysed through narrative analysis and presented through prose.

The study established that small and micro enterprises used exporting and franchising as a methods of entering the foreign or export market. In relation to the most popular process used, the study also concluded that the respondents approached internationalisation of their operations using process nine.

The study also concluded that the small and micro enterprises used the strategy of price below competitors; this strategy is likely to work out properly because most businesses compete on the prices.

The study also established that among the back up after sales services, the majority of the respondents gave warranty to their customers, free delivery to their customer after sales. There was no dedicated team involved in research and development, this was mainly because, the sample of businesses chosen were mainly small, they were therefore not able to have a dedicated team of researchers.

The study concluded that a deeper insight into the activities of internationalisation by small and micro enterprises ought to be undertaken adequately. Specific areas of research should revolve around the challenges experienced in international market and the strategies employed in dealing with the challenges.

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COMESA	Common Market for East and Central Africa
EAC	East African Community
EPC	Export Promotion Council
ERS	Economic Recovery Strategy
GOK	Government of Kenya
MNC	Multi-National Corporations
NSE	Nairobi Stock Exchange
SME	Small and medium enterprises

CHAPTER ONE

INTRODUCTION

1.1 Background

The term economic meltdown/global financial crisis is applied broadly to a variety of situations. One of which is where financial institutions or assets suddenly lose a large part of their value. In the 19th and early 20th centuries, many financial crises have resulted in banking panics, and many recessions coincided with these panics. The major characteristic of these economic crises is that they have a snow balling effect, where it starts in one country and quickly spreads to other economies. This is further complicated by the ever-increasing globalisation and the interdependence of economies. As a result of this, many economists have offered theories about how economic melt-down develop and how they could be prevented, however, there is little consensus on how best to mitigate such happening.

The latest global financial crisis/meltdown is the one of 2008 which is still ongoing, and is the worst of its kind since the Great Depression. It became prominently visible in September 2008 following the failure, merger and/or later conservatorship of several large United States-based financial firms. The underlying causes leading to the crisis had been reported in business journals for many months before September, with commentary about the financial stability of leading U.S. and European investment banks, insurance firms and mortgage banks consequent to the subprime mortgage crisis (Evans-Pritchard A. 15/08/2008, Torbat, AE. 2008-10-13, *Economist* 15/05/2008 and Structural C., 22/05/2008).

The current economic crisis has left a lot of companies going bankrupt or scaling down operations; plunging of stock prices; declining oil and real estate prices thereby leading to job cuts; shutting down of plants and factories. This has resulted in countries going into recession; decreased consumer spending and raised panic among businesspersons and workers.

What began as failures of large financial institutions in the United States, rapidly evolved into a global crisis, resulting in a number of European bank failures and declines in various stock indexes. It also caused significant reductions in the market-value of equities (stock) and commodities worldwide (Norris F., 2008-10-24). The crisis has led to a liquidity problem and the de-leveraging of financial institutions especially in the United States and Europe, which further accelerated the crisis.

World political leaders and national ministers of finance and central bank directors have coordinated their efforts to reduce effects and fears of the crisis. However, the crisis is ongoing and continues to change, evolving at the close of October 2008 into a currency crisis with investors transferring vast capital resources into stronger currencies such as the yen, the dollar and the Swiss franc, leading many emergent economies to seek aid from the International Monetary Fund. The crisis has roots in the subprime mortgage crisis and is an acute phase of the financial crisis of 2007-2008.

The economic meltdown has not spared the emerging and developing economies including Kenya. Companies have been forced to take a critical look at their operations and learn how to continually adapt in the ever-changing environment. SMEs have not been spared either and their survival is in jeopardy. Governments including that of Kenya has realised the importance of SMEs in cushioning their economies from these adverse effects are gearing their efforts to improving their competitiveness. Economies cannot exist in isolation, thanks to globalisation. Competition has transformed to become international in the domestic settings and SMEs have not been spared. Thus SMEs have to internationalise their operations.

1.1.1 Export and International Trade

Exporting of goods and services is of extreme importance from the point of view of nations and firms as well as consumers. To national governments, exporting is crucial and highly encouraged because it contributes to the economic development. It influences the amount of foreign exchange reserves, level of imports into a country and shapes public perceptions of national competitiveness (Kwon and Hu, 2001). In addition, exports enhance societal prosperity and help national industries to develop, improve productivity and create new jobs.

On the other hand, at the firm level, from market diversification perspective, exporting provides an opportunity for firms to become less dependent on the domestic market. By serving new customers in foreign countries, the firm may also gain from economies of scale and achieve lower production costs while producing more efficiently. In addition, by participating internationally, the firm will be able to access factors of production (raw materials, technology, labour, etc.) at low prices, thereby enhancing its competitiveness (Knight, 2000). The firm may also use the international experience to become a stronger competitor at home. Firms also learns from international competition by operating in foreign countries, which would eventually enable them explore new foreign markets and get involved in other internationalisation activities such as licensing, franchising, joint ventures or direct investment abroad.

Exporting may assume an important role within the firm as a means of reducing production costs, stabilizing cyclical demand, reaching new markets and gaining experience for other forms of internationalisation. Internationalisation also enables consumers to access wider range of products and better quality at reduced prices through increased international competition. This in the long run will lead to improving the standard of living and quality of life (Knight, 2000).

"Internationalisation" is defined as "the process by which firms increase their involvement in international market through such activities as exporting and across border investments" (Katila and Shane, 2005). Internationalisation takes various forms, which are often interrelated. Primarily, internationalisation involves export-import activities. However, other advanced forms of internationalisation involve direct foreign investment, which may be carried out in various approaches, including wholly owned subsidiaries, joint ventures, licensing, franchising and management contracts.

Internationalisation has always been synonymous with multi-national corporations (MNCs) whose presence and operations are global. However, Small and Medium Enterprises (SMEs) are increasingly becoming interested in the internationalisation process. National governments especially in the developing economies are pushing their SMEs to internationalise by providing incentives (Hollenstein, 2005).

A firm can be termed an SME based on one or all of the following: scope of operation, number of workers, turnover and capital invested. However, what exactly an SME is dependent on who is defining. More often, SMEs operate in single markets or limited number of markets with probably a limited number of products. Thus, the scope of operation is very limited or small. Such SMEs may be having no service departments like the market research (Autio, 2005). In most cases, the owners or co-founders have direct contact with the market and their experience is very influential. Their values and expectations are very persistent even when they have left the day-to-day management of the firm.

Decisions on competitive and expansion strategies are strongly influenced by the experience of those running the business. The SMEs are normally faced with huge challenges of raising capital.

Therefore, combined with the legacy of the founders, influence on choice of product and market, priority for consolidating its position within a particular market may override everything else. In addition, seeking growth and expansion strategies may be constrained by finance as well as founders' priorities (Gankema et al, 2000).

1.1.2 Growth of Firms

There are three main competing theories that attempt to explain growth of firms. The traditional explanation is that firms grow to reap economies of scale, and to increase their market power. They stop growing once they reach an optimum size, when they run out of profitable investment opportunities or become too big and bureaucratic to manage.

On the other hand, Life-cycle theories, which became popular in the 1970s and 1980s, identify several stages in the growth of firms, including an entrepreneurial phase, maturity and finally a period of decline. A third view, currently fashionable, attributes firms' growth to their "core competencies". In essence, this concept postulates that a firm's performance is determined by building on a set of key skills that distinguish it from its rivals. These might include better technology, a trusted brand name, or the experience of its employees.

According to a study Paul Geroski, an economist at London Business School, firm's growth, big and small, largely follows a "random walk"—an erratic and unpredictable course. However, there is in fact some evidence that smaller firms grow faster than bigger ones. In particular, very small, very new firms tend to grow much faster than established ones. More surprisingly, firms' growth rates are only weakly correlated with that of the economy as a whole or, indeed, with that of their own industry. Recessions seem to hit only a few firms badly; most are largely unaffected, while some actually prosper.

1.1.3 International Business Strategy

Globalisation has increased the urgency to globalise or internationalise operations by firms. Globalisation has led to markets being increasingly integrated in terms of tastes and preferences, market liberalisation, and advances in information and transport technology. These have in turn opened up new business opportunities for both MNCs and SMEs. On the other hand, globalisation has brought new challenges to firms all over the world and Kenyan firms are no exception. It has brought about amongst other things, increased competition by opening up the local market to new entrants both from within the borders and outside. This has caused profit margins to decline. This has also caused the local firms to loose the benefit they derive from the economies of scale. "Internationalisation" can be perceived as a prerequisite for survival or an opportunity to exploit existing competitive advantage in new markets. Thus to MNCs, being a global company guarantees survival and to a SME, internationalisation is a means to growing faster (Dhanaraj and Beamisch, 2003).

This therefore has increased the desire by firms to diversify their markets by internationalising their operations through exporting and other forms of foreign participation in order to survive the onslaught by competitors. Companies in the countries of the Asian sub-continent adopted this approach early; hence, the emergence of the many MNCs from the region is being witnessed in the past few years. On the other hand, there has been no significant level of internationalisation witnessed among the Kenyan firms especially the small and medium companies. Again, while exporting is now one of the fastest growing economic activities essential for both nations and firms, there are few indigenous firms that have fully internationalized its operations. On the other hand, for those that have internationalised, the paths and the business strategies, which they used in their quest for internationalisation, are not clearly understood.

The strategy is the way by which a firm fulfils its mission and attains its objectives. According to Brandenburger & Stuart, the essence of strategy lies in creating favourable asymmetries between a firm and its rivals. According to Barney (1997), Strategy is a pattern of resource allocation that enables firms to maintain or improve their performances. A good strategy neutralizes threats, exploits opportunities, capitalizes on strengths and/or fixes weaknesses. According to Porter, a company can outperform rivals only if it can establish a difference that it can preserve.

Strategy can also be said to be a broad program and goals that help an organization to achieve success. As well, it can be defined as the match between organization resource and skills, the environmental opportunities and risks it faces and the purposes it wishes to accomplish (Schendel and Hofers, 1979). The external environment of a firm, which comprises the whole range of economic, social and ecological factors, is changing rapidly and it is important for an organization to constantly adapt its activities to reflect its new requirements of the environment. The changes in the environment constantly influence what these organizations do, since they have to constantly adjust to them to remain successful. David (1999) articulates the view that an environment that constantly upsets a plan, demands for more planning and constant monitoring to keep the organizational performance ready to respond to environmental changes. Thus, strategy becomes the mediating force between the organization and the environment.

1.1.4 SMEs in Kenya

Kenya, as in most of other African countries does not have a working definition of SMEs. SME concept in Kenya is normally taken to include micro enterprises. In some instances, SME is defined as an enterprise that employ between five (5) to fifty (50) employees. These enterprises are usually owner managed or directly controlled by the owner-community and are mostly family owned. These enterprises normally operate from business and industrial premises, are tax registered. Classification in terms of assets and turnover is difficult.

On the other hand medium enterprises usually employ over 200 employees and capital assets of about 2 million. SMEs are generally small units specialising production for well-defined markets with low capital formation. In this paper, the focus will be given to enterprises whose turnover is between Ksh. 70 million and 1 billion.

The important role played by the SMEs in Kenya's economy cannot be over emphasised. The SME contribute immensely to the economic development and wealth creation through employment creation estimated at 3.2 million people in 2003, generation of incomes, increasing productivity, facilitating technological transfers and creation of market linkages among other benefits. Despite all these benefits, however, data on the SME sector in Kenya is scarce. An attempt was made through the compilation of National MSE Baseline Survey in 1999 but unfortunately, it was lacking on information for medium-sized firms. The increasing role of the MSME sector is confirmed by the recently completed Kenya 2003 Economic Survey.

In recognition of the important role by the SME sector, the Kenya government prepared the Economic Recovery Strategy for Wealth and Employment Creation. *2003-2007 (ERS)* which outlines a recovery centred on a rejuvenated private sector. Reviving private sector activity and investment and specifically micro, small, and medium sized enterprise (MSME) development, feature prominently in the Government's strategy for raising incomes and employment. More recently, the Government has outlined its economic development policy in the Vision 2030, which aspires to make Kenya a globally competitive and prosperous nation by the year 2030. In the Vision, the government has committed to the development and creation of at least 5 SME industrial parks.

The SME sector in Kenya is currently faced with a myriad of constraints including market failures limiting the necessary access to information, finance, labour skills, and business development services (BDS) to increase competitiveness and productivity. Other constraints include limited access and expensive credit, low productivity, weak of market linkages, un-enabling business and regulatory environment among others.

1.2 Statement of the Problem

Despite the fact that exporting is the fastest economic activity in the world, participation of Kenya's indigenously owned companies is very small. For the few that have internationalised, neither their internationalisation paths nor business strategies adopted are clearly understood. Some of these SMEs internationalise their operations soon after formation yet others follow the "traditional" internationalisation models where they operate in the domestic markets then at a later stage extend its operations to international markets. It is not clear whether the SMEs in Kenya internationalisation behaviour is planned or unplanned. It is also not clear whether Kenya's SMEs internationalisation behaviour is reactive (where firms only responded to unsolicited orders/enquiries) or rather engages in proactive strategies.

Johanson and Mattsson (1993) identified three processes of internationalization: business-strategy-based theory, process of internationalization and network approach. According to Johanson and Mattsson, the business-strategy-based theory of internationalization assumes that the firm has developed a source of competitive advantage in its domestic markets. If this advantage cannot be efficiently exploited within the domestic market without undue transaction costs, then the firm will seek to move outside that market and seek to exploit its sources of advantage elsewhere. The process of internationalization, also known as the Uppsala internationalization model, describes a process of increased commitment to international sales and production. While, network approach, focuses on the relationships between companies; company establishes and cultivates a number of relationships and networks, and the internationalization process is dependent on the quality of the networks developed.

A number of studies have been done in Kenya on how firms have adopted to the new challenges posed by international business. Njau (2000); Abdullahi (2000); Kandie (2001); Thiga (2002); Goro

(2003); Kiptugen (2003); Mugunde (2003); and Mugambi (2003) studied the responses of various companies to challenges posed by the emergence of international business. Other studies that have been done on how Kenyan businesses have adopted international strategies include Masinde (1986); Koech (2002); Mwanthi (2004); Chemayiek (2005); and Mulandi (2005). These studies identified strategic responses to challenges of internationalization by relatively large companies in Kenya.

There was therefore need to study the internationalization strategies adopted by SMEs in Kenya so to have a better understanding of their internationalisation behaviour. The study therefore sought to investigate the process of internationalisation strategies pursued by SMEs as well as establish how business strategies interacted with and impacted upon their internationalisation decisions. The problem of the study, therefore, was to find out strategies used by Kenyan SMEs firms in internationalisation.

1.3 Research Objectives

The overall objective of this study was to determine the internalization strategies used by Kenyan SMEs in their process of internationalization.

1.3.1 Specific Objectives

The following were the specific objectives for the study:

i. Document operation, market, product and time pattern adopted by SMEs in internationalization

ii. Find out the internationalisation strategies used by SMEs

iii. Determine the factors that motivate SMEs to internationalise their operations

iv. Investigate the generic strategies adopted by the SMEs during internationalization

1.4 Importance of the Study

The findings of this research will be of importance to small, medium and micro enterprises that seek to internationalize since they can use these findings and recommendations there-of in formulating their strategies on how to internationalize and leverage their performance in the global arena hence diversify their risk.. Not only will the study be of importance to the SMEs, it will also assist other business support organisations promoting export trade(such as Export Promotion Council, Kenya Association of Manufacturers, and Kenya National Chamber of Commerce and Industry) for they will get a comprehensive knowledge on strategies to use in order to promote internationalisation of SMEs.

The findings and recommendations of this study will also assist the government in policy formulation that will enhance SMEs' participation in international business and hence increase their contribution to the economic growth.

The study will be of great value for further research on internationalisation strategy since it will form a good literature upon which further studies will be benchmarked and literature on the same drawn from. It will also be invaluable to academicians for it will enhance their knowledge on internationalisation strategy used by SMEs.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter introduces the literature reviewed to providing a theoretical grounding for the study. It also identifies the research issues to be addressed. It also provides the conceptual framework and a detailed outline of the underlying concepts and variables.

2.1 Internationalization

Welch and Luostarinen (1988) defined internationalisation as "the process of increasing involvement in international markets". While on the other hand business strategy is the broad range of strategic options open to the firm including both organisational and functional management strategies, product/market strategies and diversification strategies.

Early literature on internationalisation behaviour concludes that the process involves a series of incremental "stages" where firms gradually become involved in exporting and other forms of international business. As they do so, they commit greater resources to the foreign markets and target countries that are increasingly "physically" distant (Bilkey and Tesar, 1977; Johanson and Vahlne, 1977; Cavusgil, 1998; Czinkota. 1982). Although the number of stages differs, a common underlying assumption of the extent "stage" model is that firms are well established in the domestic market prior to developing international strategies. Despite the continued support for this model, there is no congruence between theory and practice (Andersen. 1993).

Research in the last decade by (Mckinsey and Co., 1993, Madsewn and Servais, 1997) has supported the recently emerged concept of "born global firms". The global firms are also known as "international new ventures" (according to Mcdougall et al. 1994). While according to Bonaccorsi, (1992) these born global firms are called "committed internationalists". These "born global firms" tend to be smaller firms formed by active entrepreneurs and typically, their offerings involve substantial value added products. The characteristic of these firms is that management adopts a global focus from the outset and embarks on rapid and dedicated internationalisation (Jolly et al., 1992; McKinsey & Co., 1993; Bloodgood et al., 1996). According to Knight and Cavusgil (1996), the emergence of such firms can be explained by recent trends such as advances in information and communication technologies, the increasing role of niche markets, and the growth of global networks, which are facilitating the development of mutually beneficial relationships with international partners.

These trends are increasingly exerting strong influence on small firm internationalisation. What is also emerging from these authors' discussion of the 'born global' phenomenon, is that firms with 'an international vision from inception', or soon thereafter, (Oviatt and McDougall, 1994), present a substantive challenge to internationalisation 'stage' theories and the notion of incremental internationalisation (see also Madsen and Servais, 1997). Indeed, divergent empirical results have led many authors to seek alternative frameworks to the internationalisation process models.

The internalisation/transaction cost paradigm represents a generally accepted model in the international business field, with substantial empirical support especially in respect of the foreign direct investment (FDI) decisions of multinational enterprises. The paradigm has been applied to the early internationalisation stages by Anderson and Coughlan (1987) who argued that integration of marketing and distribution functions may be preferred when the firm possesses specialized knowledge and when agents are difficult to find. However, McDougall et al. (1994) found that in some international new ventures, entrepreneurs did not make internationalisation decisions on the basis of lowest cost locations; and neither did they attempt to internalize activities to the point where the benefits of further internalization were outweighed by the costs. Furthermore, strategic alliances were found to be common for international new ventures even though the firms ran the risk of losing proprietary know-how through opportunistic partner behaviour.

Increasing interest has also been shown in network theory and internationalisation (Benito and Welch, 1994; Johanson and Mattsson, 1988; Johanson and Vahlne, 1992. Coviello and Munro (1997) concluded that the internationalisation process for small firms, especially the small software firms, could be enhanced by integrating the models of incremental internationalisation with the network perspective. They suggested that this externally driven view of internationalisation (the external web of formal and informal relationships) provides additional insights to the internally driven perspective of Johanson and Vahlne (1990). In the latter, the evolution of internationalisation is based on managers' cognitive learning and competency development, which gradually increases through experience.

There is no doubt that network relationships with partners (both direct and indirect) offer helpful new insights and require to be incorporated into models or frameworks of small firm internationalisation. However, the cause and effect relationships are not yet totally clear. Indeed, it might be argued that networks provide mechanisms to overcome resource deficiencies, rather than being drivers of internationalisation per se.

Recognition by scholars that internationalisation is affected by multiple influences has led to growing interest in contingency approaches. This view was articulated by Reid (1983), but did not attract much attention until recently. However, in the last decade Woodcock et al. (1994), Yeoh and Jeong (1995), Kumar and Subramaniam (1997) - among others - have developed contingency frameworks in the international business and exporting fields. In justifying this perspective, Kumar and Subramaniam (1997) argue that the existing literature has not devoted much attention to evaluating market selection and mode of entry decisions as interdependent decisions. Luostarinen (1979) also suggest that the range of the firms' internationalisation decisions, which include product decisions, market choice and entry modes, are made in a holistic way.

In a similar vein, Bell and Young (1998) and Coviello and McAuley (1999) have argued that excessive attention has been paid to the merits of competing theories and models rather than to their potential complementarities. The latter authors conclude that SME internationalisation is best understood by integrating major theoretical frameworks. Bell and Young (1998) contend that the nature and pace of internationalisation is conditioned by product, industry and other external environmental variables, as well as by firm-specific factors.

There is need to further investigate firm- and industry-specific influences as particular 'critical incidents' may impact on firms' overall business strategies and market focus. Firms may also experience 'epochs' of internationalisation, followed by periods of consolidation or retrenchment, or they may be involved in particular 'episodes' that lead to rapid international expansion or de-internationalisation (Crick, 2002; Oesterle, 1997; Pauwels and Matthyssens, 1999). These 'episodes' or 'epochs' may be triggered by environmental forces that impact on the strategies of domestic or overseas customers and other network partners, as well as those that directly influence the focal firm.

2.2 SMEs and Internationalization

The internationalization of small and medium-sized companies is an important phenomenon, which requires more research, although SMEs are not yet represented in the international economy as well as large firms (Gemser et al 2004). Since the 1990s. many researchers have paid more attention to the internationalization of SMEs. This is well justified in view of the important role the SME sector plays in economies of many nations.

Demick & O'Reilly (2000) pointed out that the SME sector generally contributes less than 10 per cent to total exports of the world. The small percentage is at least partly due to the fact that SMEs have inherent financial and human resource constraints, a limited scale of operations and lack of strategic thinking and planning. However, an important part of the exports of big companies stems from subcontracting and networking with small companies, so the total exports of the SME sector are more important than the figures indicate

It is important for the economies and companies to achieve a change in these figures. As was pointed out already by Luostarinen (1979), the stock of general as well as specific knowledge in the internationalizing company - big or small - is of crucial importance for its foreign market operations, and an increase in knowledge is always a result of organizational learning. Dunning (1989) said that the capability to gather, store, monitor, interpret and analyze information at the least possible cost can be the key intangible asset providing firm-specific advantages. An organization in turn consists of the people working for it, and an assessment of the specific skills and knowledge needed for the internationalization of SMEs would be useful information to communicate to those who are contemplating or just starting their internationalization.

Liesch & Knight (1999) pointed out that information internalization is fundamentally antecedent to SME internationalization. They define information internalization as the flow of both tacit and explicit information into the organization and the translation of it into knowledge, which is then applied to some purpose. They contend that internationalization cannot proceed until the firm has acquired relevant knowledge through a process of information internalization and translation. They claim this process to be a necessary condition for SME internationalization. It has also been pointed out in some studies that the key person in a smaller company - the manager / owner - plays an important role for the company's international orientation. Personal interests and personal relationships may be decisive in the choice of target countries and even internationalization modes (see e.g. Madsen 1989; Cavusgil & Kirpalani 1993; Cavusgil & Zou 1994).

One of the most common forms of communication difficulties is normally considered to be the use of language (Söderqvist 2004, Crick 1999). Language deficiency is a problem even though some other researchers (Beamish & Calof 1989) have found different results. Marschan et al. (1999) say that language imposes its own structure on communication flows and personal networks. Subsidiary staff with confined language skills tends to build supporting personal relationships with language mediators, while those with superior language capabilities are able to build broad contact networks. According to Marschan et al. (1999), language is often used as an informal source of expert power. According to Wales, Peel and Eckart (1997) SMEs do not consider language to be such an important export impediment as larger firms do. SMEs do not recruit language specialists or support language training of staff (Crick 1999), although there is some evidence that export success is correlated with the employment of foreign language and culture specialists (Enderwick and Akoorie, 1994). Enderwick and Akoorie even claim that competitive advantage and the management of global organizations are increasingly built around marketing know-how supported by language skills and cultural awareness. However, the role of foreign language competence in international business has received limited attention altogether, and this applies particularly to SMEs.

Since the late 1970s, the role and significance of support services for the internationalization of small firms have been widely investigated (de Chiara & Minguzzi 2002). The studies have focused on the needs of small firms, their export performance and the development of know-how for selling products, governmental internationalization promotion, and a stock of knowledge and information for internationalization, all of which could be combined under the theme how SMEs learn to go global.

Issues about governmental and other aid for internationalization are - or at least should be particularly important for small and medium-sized companies. SME cooperation in export circles appears to have led to essential shared expectations of effective business management in the relational atmosphere of mutual understanding (Tuusjärvi 2003). In addition, based on Australian evidence, Welch et al. (1998) proposed that export promotion should be done by promoting networks. Demick & O'Reilly (2000) report that there is considerable evidence in the literature to suggest that conventional export promotion support measures are inadequate and unsuitable for the needs of the SME sector. They claimed that the development of practical skills is central to supporting internationalization of small firms. They also argue for networks in which learning experiences can be shared among participants.

However, Korhonen et al. (1996) were critical about the mix of government aid directed to export promotion. They based their view on the fact that most of the Finnish manufacturing SMEs began international operations on the inward side rather than the outward. There is certainly reason to look into the Finnish smaller companies' use of and experiences with different forms of aid for their internationalization, including networking for instance in the form of export circles. In spite of an increase in research in the area, it seems that the internationalization of smaller companies particularly in the developing nations has been neglected. The present study will strive to fill this gap.

2.3 Business Strategy and Internationalisation

Very little has been done to relate business strategies being pursued by SMEs to their internationalisation process. Melin (1992) has highlighted the limited attention that has been paid to the link between 'internationalisation theory' and strategy issues at both conceptual and practical levels. The absence of linkages is perhaps most evident in relation to small firm strategies and internationalisation. In some respects this situation is surprising, given that Ansoff (1965) identifies new market development (i.e. internationalisation) as a viable strategy for rapid small firm growth in his product-market expansion matrix, as an alternative to developing new product/service offerings for the domestic market.

However, in other respects the lack of attention is less remarkable and may be partially explained by a number of factors. First, much of the early literature characterises small firms' export behaviour as essentially unplanned and reactive, with firms responding to unsolicited orders or enquiries rather than pursuing proactive strategies (Bilkey and Tesar, 1977). Second, many of these contributions tend to regard international involvement as of secondary importance to domestic market activities and something that firms only consider once they have established a secure foothold in the home market. Thus, domestic and international developments are often viewed as diverse strategic solitudes, rather than complementary strategies for firm growth. Third, the financial and human resource constraints of smaller firms are well documented, as is an absence of formal planning (Carson et al., 1995). This "resource poverty." requires some very different management approaches' (Welsh and White, 1981), which often reflect the implicit, rather than explicit, nature of the process in small firms (Pennings, 1985). In these circumstances, small firm internationalisation is often considered to be ad hoc and export activity regarded as 'at best . . . unplanned, reactive and opportunistic' (Bradley and Mitchell, 1986; Westhead et al., 2002).

Mintzberg (1973) and others (Timmons, 1978; Gibbs and Scott, 1985; Shuman and Seeger, 1986) observe that a major factor in the continued success and expansion of small firms is the strategic planning activity undertaken by CEOs and that strategy formulation is essentially a 'top-down' process. In this context, it should be recognized that the absence of an explicit and formal strategy does not equate to the lack of a strategic vision, whether or not this involves a global focus. It is suggested that strategic planning activity will become more formal and sophisticated over the life cycle of the business.

However, in this context, some work indicates that the motivation to think and act strategically may only be brought about by a crisis within the organization (Aram and Cowan, 1990). Other research shows that the ability to use strategic management practices appropriately is a function of the entrepreneur's previous experience (Bracker et al., 1988); and of contact with external advisors or nonexecutive directors (Berry, 1998). The latter two studies related to small firms in growth/small high-tech sectors, and are thus significant in the context of the present work on 'knowledge-intensive' versus 'traditional' firms. Related work also concerns the influence of management buy-outs (MBOs): a review of studies in the USA, France and the Netherlands (Wright et al., 1992) indicated that short- and medium-term improvements in performance and strategic focus, at least, were closely associated with the incentives of MBOs.

More recently, Welch and Welch (1996) have attempted to develop a longitudinal conceptual model to identify the interrelationships between the two streams of international business inquiry, that is, *internationalisation* and *strategic management*. The authors stress the significance of the 'strategic foundations' (knowledge, skills and experience, networks, etc.) of the enterprise and its external environment, and identify planned and unplanned routes to internationalisation, with networking important in both. They conclude by calling for 'empirical studies that specifically focus on strategy and internationalisation process interconnections' (Welch and Welch, 1996: 25).

Andersen and Kheam (1998) used a resource-based framework to explore the international growth strategies of small- to medium-sized Norwegian exporting firms. Ansoff's (1965) product-market expansion matrix is used to classify alternative growth strategies vis-à-vis market penetration, market development, product development, and diversification growth. Julien et al. (1997) also proposed a typology of the strategic export behaviour of SMEs based on their case study research. In addition, the importance of the wider business strategy context in internationalisation is implicit in a number of other studies (Melin, 1992; Prefontaine and Bourgalt, 2002). For example, Coviello and Munro (1997) identify issues such as product diversification and acquisition as influences in international development. Additionally, Bell's (1995) study showed examples of software companies that followed clients into international markets or sought to be acquired in order to sustain domestic and principally international growth.

The increasing interest in 'born global' firms is important in this context too, since for such companies the key business strategy of the firm *is* rapid and dedicated internationalisation. This phenomenon suggests that many firms no longer regard international markets as 'simple adjuncts to the domestic market' (McKinsey & Co., 1993), but that business strategies are developed from the outset with global markets in mind. Boter and Holmquist (1996) compared cases of traditional manufacturing (engineering) firms with innovation-oriented small firms. The former were integrated into the manufacturing systems of large companies, subcontractors and customers; operated with a production-oriented culture; had a local rather than global focus; pursued a stepwise international expansion; and were often family-owned. The latter were much more dynamic, independent, globally focused firms that internationalised rapidly, with a lower orientation towards the domestic market.

Thus, extant research suggests that a greater understanding of both the domestic and international behaviour of smaller firms is still required. Moreover, critical interrelationships between domestic and export activities also need to be explored within the context of the firms' overall business strategies. The present study seeks to address this and provide additional research and public policy support perspectives on these linkages. The specific objective of the enquiry is to explore the interrelationships between overall business strategy and internationalisation. A number of key issues to be empirically investigated in depth and include: Firms' initial business strategies, growth objectives and international orientation; the stimuli, which influenced the choice of strategies and subsequent operational decisions; the role of internationalisation in the overall business strategy of the firms.

2.4 Generic Strategies

Generic strategies outline the three main strategic options open to organizations that wish to achieve a sustainable competitive advantage. Each of the three options are considered within the context of two aspects of the competitive environment (Porter, 1980).

2.4.1 Cost Leadership

The low cost leader in any market gains competitive advantage from being able to many to produce at the lowest cost. Factories are built and maintained; labour is recruited and trained to deliver the lowest possible costs of production. 'Cost advantage' is the focus. Costs are shaved off every element of the value chain. Products tend to be 'no frills.' However, low cost does not always lead to low price. Producers could price at competitive parity, exploiting the benefits of a bigger margin than competitors (Porter, 1980). Some organizations, such as Toyota, are very good at not only producing high quality autos at a low price, but have the brand and marketing skills to use a premium pricing policy.

2.4.2 Differentiation

Differentiated goods and services satisfy the needs of customers through a sustainable competitive advantage. This allows companies to desensitize prices and focus on value that generates a comparatively higher price and a better margin. The benefits of differentiation require producers to segment markets in order to target goods and services at specific segments, generating a higher than average price (Porter, 1980). The differentiating organization will incur additional costs in creating their competitive advantage. These costs must be offset by the increase in revenue generated by sales. Costs must be recovered. There is also the chance that any differentiation could be copied by competitors. Therefore there is always an incentive to innovated and continuously improve.

2.4.3 Focus or Niche strategy

The focus strategy is also known as a 'niche' strategy. Where an organization can afford neither a wide scope cost leadership nor a wide scope differentiation strategy, a niche strategy could be more suitable. Here an organization focuses effort and resources on a narrow, defined segment of a market. Competitive advantage is generated specifically for the niche. A niche strategy is often used by smaller firms. A company could use either a cost focus or a differentiation focus. With a cost focus, a firm aims at being the lowest cost producer in that niche or segment. With a differentiation focus, a firm creates competitive advantage through differentiation within the niche or segment (Porter, 1980). There are potentially problems with the niche approach. Small, specialist niches could disappear in the long term. Cost focus is unachievable with an industry depending upon economies of scale, for instance, telecommunications.

2.5 Diversification Strategy

Diversification inherently constitutes networking, reaching out in terms of services and products, or/and having variations. A number of strategies may be employed. One such strategy is for a company to diversify its range of products. A firm may even become its own supply of its raw materials or services. Diversification may also include a firm moving into related new markets with new product. In the context of Kenya, small businesses like street trade where one sells firm produce like fruits harvested from one's shamba (farm). Another example would be hotel, where one's firm supplies foodstuffs (Kinyanjui M., 2000).

A firm that produces a number of largely unrelated goods and services is said to be diversified. A diversified company might be offering services such as research, and at the same time selling computer accessories and printing. Diversification gives a company more financial security than it would have if it produced only one kind of product. Because a diversified company operates in various industries, it can usually offset declines in one industry with advances in another. Diversification is therefore an opportunity for growing small businesses in Kenya, for it ensures stability and continuity.

2.6 Operation Pattern

For most entrepreneurs, the most significant international marketing decision and critical first step they are likely to take is how they should enter foreign markets, as the commitments they make will affect every aspect of their business for many years ahead (Doole and Lowe, 1999 and Benito and Welch, 1994). There is, however, no ideal market entry strategy and different market entry methods might be adopted by different firms entering the same market and/or by the same firm in different markets. Operating modes have been considered a very important way of assessing the pattern of internationalization involved.

As international operations are very dynamic in their nature, the modes of entry and operations are also very different and evolve with them. Market entry mode selection is a particular case of wider decision processes often referred to in the literature as market-servicing decisions (Koch, 2001). It has recently been possible to see many new combinations and modes of entry and operations as a result of the dynamic nature of internationalization.

Once a company starts in international business it will gradually change its entry mode decisions in a fairly predictable fashion. According to Welch and Luostarinen (1993), Nordic studies indicate that as companies increase their level of international involvement there is a tendency for them to change in the direction of increased commitment. Increasingly, they will choose entry modes that provide greater control over foreign marketing operations (Erramilli and Rao, 1993 and Doole and Lowe, 1999). However, to gain greater control, the company will have to commit more resources to foreign markets and thereby assume greater (market, political and other) risks. Growing confidence in its ability to compete abroad generates progressive lifts in the company's trade-off between control and risk in favour of control. Consequently, the evolving international company becomes more willing to enter foreign target countries as an equity investor (Root, 1994).

2.7 Market pattern

Target markets may differ greatly from each other and from the market of the home country. These differences essentially effect the determination of the company's target market strategy. Johanson and Vahlne (1990) hypothesized that companies 'start internationalization by going to those markets they can most easily understand... where they will see opportunities and the perceived market uncertainty is low... and thus enter new markets with successively greater psychic distance'.

Traditionally, physical or geographical distance has been included in explanations of the direction of international trade (Luostarinen, 1979). Johanson and Wiedersheim-Paul (1975) expanded the concept of psychic distance with other dimensions such as cultural, political and environmental and proposed the following definition, later also adopted by Johanson and Vahlne (1990). 'Psychic distance is a sum of factors that prevent the flow of information between firm and the market'. Definitions were further developed and the concept was applied to other contexts and dimensions.

As to the target market determination, the distance involved is assumed to have an impact on the level of knowledge. In general, the concept supports the idea that the greater the distance between the home and target country, the greater the differences and smaller the firm's level of knowledge about the target country, as some of the most critical resources needed for international involvement.

The psychic distance procedure in selecting the target country can often result in targeting a market that is limited to the firm's immediate neighbours since geographical proximity is likely to imply more knowledge about the foreign market and greater ease in obtaining information (Papadopolous and Denis, 1988). Selecting a target country through the psychic distance concept is just one (nonsystematic) approach believed to be more likely used by small firms and firms that are still early in their internationalization process than larger firms with international experience (Andersen and Buvik, 2002).

2.8 Product Pattern

Luostarinen (1979) developed a classification for the product variable that a manufacturing firm can offer to home or international markets. This consists of physical goods, services, know-how and systems. A system is a combination of three product categories: physical goods, services and know-how. Recently, it has also been possible to see more and more service firms taking the decision to grow through international markets by only offering services.

According to Luostarinen (1979), there were two key reasons for this type of classification in the late 1970s. First, the sale of services and know-how systems in international business was increasing more rapidly than that of physical goods. Second, it was generally recommended that firms in small and open economies should focus on products where the relative degree of software was higher than the degree of hardware. Today, both of these justifications are even more valid than some twenty years ago. The share of services, know-how and systems in total world trade is currently growing faster than the share of physical goods. Moreover, in today's knowledge-based society countries with high education levels need to focus on providing a total package of hardware and software in order to solve comprehensive customer problems.

Another strategic issue that companies must deal with when entering foreign markets concerns products and the adaptation of promotion in differing product-market contexts and product standardization (Cavusgil et al., 1993). It is now generally accepted that products can be located on a product-market standardization-adaptation continuum, rather than being standardized as a global product or fully customized to particular market nuances. The extent of standardization primarily depends on the demand and requirements of local consumers within a particular industry. As with product adaptation, promotion adaptation is dependent on the firm, industry, product and market (Cavusgil et al., 1993). With the spread and increased use of information technology, especially the internet as a medium of communication and a marketing tool to penetrate foreign markets, SMEs with a lack of resources usually choose strategies that do not need product/service adaptation. They try to attract tourists from different foreign markets, who are interested in the products/services that they have already developed.

1.9 Time Pattern

Developing the initial market/product dimensions of internationalization further with the pattern of entry modes introduced by Luostarinen (1979) and Welch and Luostarinen (1993), authors suggest adding another pattern, namely the time pattern. When Luostarinen (1979) started to develop the internationalization theories, most companies entered international markets incrementally, step by step, after having operated for a few years in home markets. Even in those times there were exceptions (Luostarinen, 1979) where companies started their internationalization very soon after their inception, but these companies were very few. Since then, many things have changed and the number of companies entering foreign markets very soon after to their inception has been increasing rapidly. Oviatt and McDougall (1994) called them international new ventures. The time dimension of internationalization is crucial as it represents a bridge between incremental internationalization and internationalization at inception (Antoncic and Hisrich, 2000) and a strategic choice in decision-making regarding the decision for entry and exit from specific markets (internationalization – de-internationalization).

CHAPTER THREE

RESEARCH METHODOLOGY

Research Design

e study used a descriptive survey design where focus was to identify the strategies employed by MEs in internationalisation. Mugenda and Mugenda (2003) espoused the use of surveys as being eful for educational fact-finding. This is mainly because surveys provide a great deal of formation, which is accurate. Further justification for the choice of the survey design was given by hen and Marion (1980) who stated that the intention of the survey research is to gather data at a ricular point in time and use it to describe the nature of existing conditions.

2 Target Population

e target population from which the sample was drawn from Kenya's SMEs manufacturing sector mprising of the following industries; building materials, plastic and consumer products ecifically agro-based products. According to KPMG survey, there are over 30,000 SMEs in enya. In order to avoid ambiguity, only the 500 companies surveyed during KPMG's top 100 MEs were considered as the target population from which the sample was drawn. This was because the availability of data on the SMEs and due to the fact that the survey was conducted on SMES ith a capital base of between Ksh70 million and 1 billion and hence the SMEs have knowledge of e internationalisation strategy.

3 Sampling Design

Ince it was not possible to collect data from all companies in the sector, a representative sample as drawn from which the characteristics of the entire population were inferred. The sample was rawn from list of top 100 Kenya SMEs identified in the KPMG survey and was confirmed with the ata available at the Registrar of Industries at the Ministry of Trade and Industry. A total of 30 ms/SMEs was drawn with 10 from each of the 3 industries namely: Building materials industry. astic industries and consumer products specifically agro-based.

ified sampling method was adopted. The population was divided into homogeneous groups a) which was based on industry and product specialisation. The sample was drawn randomly disproportionate sampling methods. This approach was adopted since most of the target lation are concentrated in Nairobi and environs (Thika and Athi River). Therefore, the sample n was deemed to be representative of the entire strata. Another reason Nairobi and environs was ble for carrying out this research was that the researcher was familiar with the companies in the . The researcher and all the research assistants used in the study were also based in Nairobi.

Data Collection

estionnaire was used in the collection of data. The questionnaire was chosen as a basic research since it would speed up the data collection process from the respondents. The questionnaire ained structured open and closed questions. The questionnaires were mailed out to respondents gh e-mail, fax and hand delivery. Thereafter, follow ups was made through telephone calls, onal visits and personal interviews. Targeted interviewees in these sample companies were those had worked since inception and included founder CEOs and other key employees especially der CEO's children.

the purpose of validation, the questionnaire was pre-tested to determine the validity of questions, taken to complete and determine whether or not the questions were easily understood. ission was also sought from the participating companies and were assured of confidentiality. corrections and suggestions given during pre-testing were used by the researcher to improve on instruments. The revised instrument was then administered to the respondents. Thereafter, bility was determined through calculation of a correlation co-efficient between the first and nd administrations. After the pilot testing of the instruments, modification of the same was done rder to achieve desired test validity and expected level of reliability. Data collection process took ut one month. As earlier stated, secondary data in this study area was non-existent and hence lysis was based on primary data. The primary data was collected from the respondents using cture/open-ended questionnaires, and analysed to determine the characteristics that represented e entire population.

3.5 Data Analysis

Data analysis process started immediately after data collection, ended with the interpretation, and processing of results (Mugenda and Mugenda 2003). Before processing the data, the questionnaires were edited for completeness and consistency. This ensured that the questionnaire was completed as required. The data was then cross tabulated and coded to facilitate statistical analysis. Descriptive statistics such as frequency distribution, percentages and means were presented using tables and graphs. Qualitative data from open questions was analysed through narrative analysis and presented through prose.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

.1 Introduction

his chapter presents the data analysis and interpretation; the results are derived from the uestionnaires to the respondents which have been coded and analysed. The chapter is organised into eneral information and other sections dealing with the content of the study.

.2 Age and Nature of the Business

.2.1 Duration of the business

he results indicate that majority of the respondent businesses had operated for between 5-10 years nd this was represented by 63%. This was followed by those which had operated for below five ears . this was represented by 27%. The table below shows the findings.

Table 1: Duration of business

Duration of business	Frequency	Percentage
5-10 years	19	63%
Below 5 years	8	27%
10-15 years	2	7%
Over 15 years	1	3%
Total	**30**	**100%**

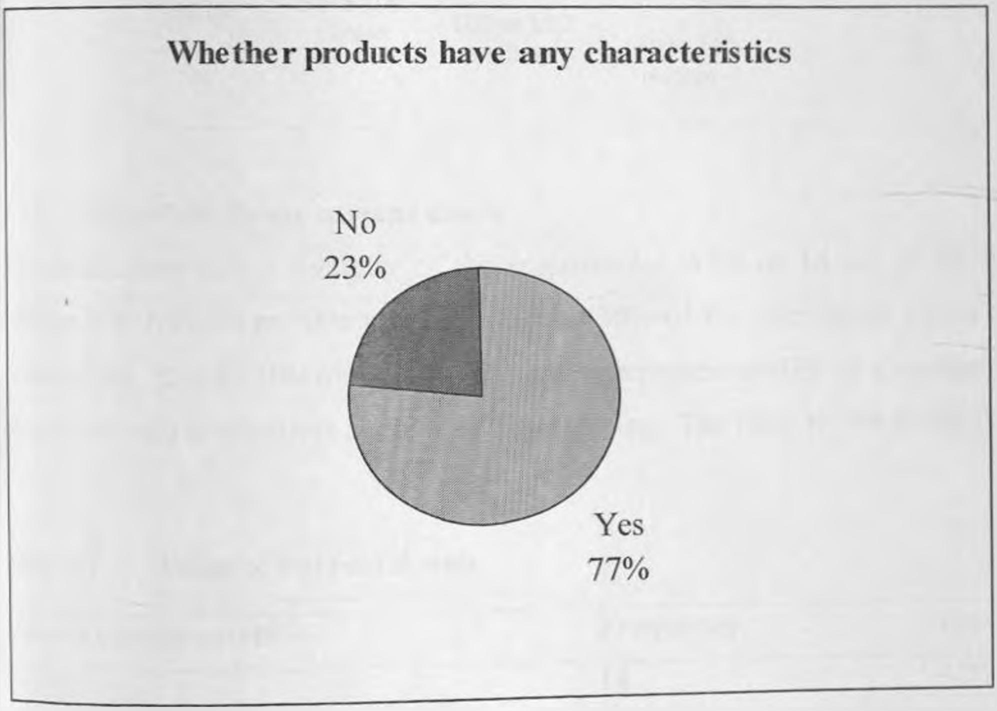
4.2.2 Products manufactured

The findings indicate that the small businesses manufacture a variety of products; most of the products were related to building and construction material which include nail, plumbing accessories, iron and steel as well as roofing materials. Respondents that produce plastic goods manufactured mainly the household utensils such as buckets, water tanks, plates, cups, and packaging materials. The other proportion of respondents also indicated several types of consumer products offered such tomato sauce, fruit juices, quenchers, marmalades, jams, etc.

4.2.3 Presence of Unique Characteristics as Compared to Competitors

The respondents stated that the products they offered were very unique to each and every detail with 77% of them stating that their products offerings were uniquely identified by their design and packaging. The other characteristics which respondents reported as contributing to the uniqueness of their products were quality and product composition. The respondents indicated that the most important aspect of any their products were their ability to uniquely identify a product and make it different from other competitors' products. The figure below shows the findings.

Figure 1: Presence of Unique Product Characteristics

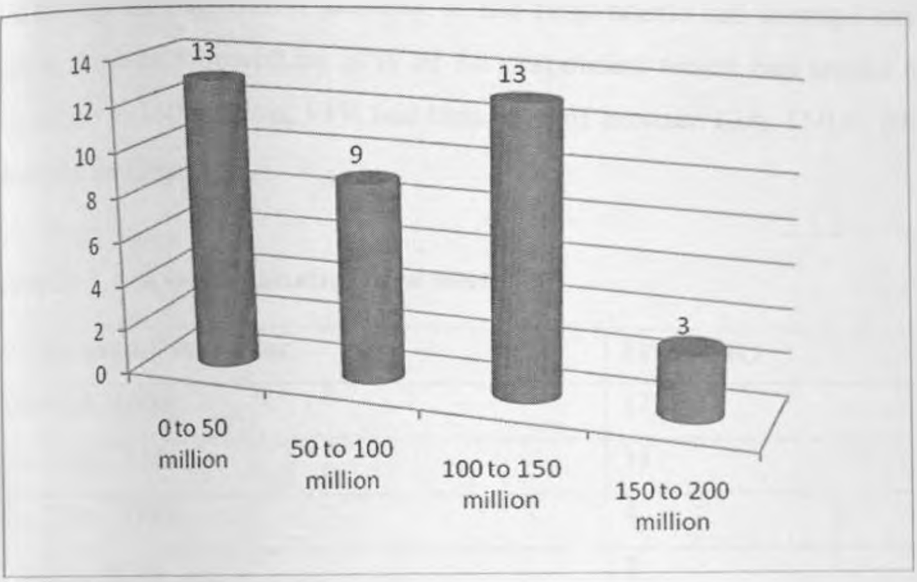


4.3 Size of the firm

4.3.1 Value of the firms fixed assets

The majority of the respondents. 13 of 30 had a value of assets ranging from Ksh. 0 to 50 million; this was followed by 9 of 30 respondents who had a value of assets of between Ksh. 50 to 100m. The figure below shows the findings.

Figure 2: **Valuation of firms fixed assets**



4.3.2 Value of the firms current assets

The results show that a majority of the respondents, 47% or 14 out of 30, had current assets of between 0 to Ksh. 50 m, this was followed by 30% of the respondent which had current assets of between Ksh. 50m to 100 m. The current assets represent ability of a company to meet its current obligations, such as creditors and day to day expenses. The table below shows the findings.

Table 2: **Value of current Assets**

Value of current assets	Frequency	Percentage
0 to 50m	14	47%
50 to 100m	9	30%
100 to 150 m	4	13%
150 to 200m	2	10%
Over 200m	1	3%
Total	**30**	**100%**

4.3.3 Average annual turnover

The findings indicate that a majority of the respondents had average turn over of below Ksh. 100 million, this was followed by 37% of the respondent which had annual turn over of between Ksh. 100 million to 150 million, 13% had turn over of between Ksh. 150 to 200 million. The table below shows the findings.

Table 3: **Average annual turn over**

Average annual turnover	Frequency	Percentage
Below Ksh. 100m	12	40%
Ksh. 100m – 150m	11	37%
Ksh. 150m -200m	4	13%
Over Ksh. 200m	3	10%
Total	**30**	**100%**

4.3.4 The net profit of the firm during the last financial year

The findings indicate that 53% of the respondent had a net profit of between Ksh. 30 to 50 million this was followed by 20% of the respondent who had a net profit turn over of between Ksh. 10 -30 million. The net profit of a company represents the excess of operating expenses over the gross profit. Gross profit is the net of cost of sales over the gross sales. A company with large net profit is able to have good cash flow position.

Table 4: **Net profit**

Net profit	Frequency	Percentage
Below Ksh. 10m	5	17%
Ksh. 10m – 30m	6	20%
Ksh. 30m – 50m	16	53%
Over Ksh. 50m	3	10%
Total	**30**	**100%**

4.3.5 The number of employees in the firm

The findings indicate that for a majority of the firms had below 100 employees, this was followed by 37% of the respondent who had 100 to 200 employees. The number of employees in a firm is also a basis of determining the size of the firm, since the respondents were small and medium businesses, the range of employees should be in the range of 250 employees. 53% of the respondents had contract employees of below 100, this was followed by 30% of the respondents who had between 100 - 200 employees. The tables below presents the findings.

Figure 3: Number of employees

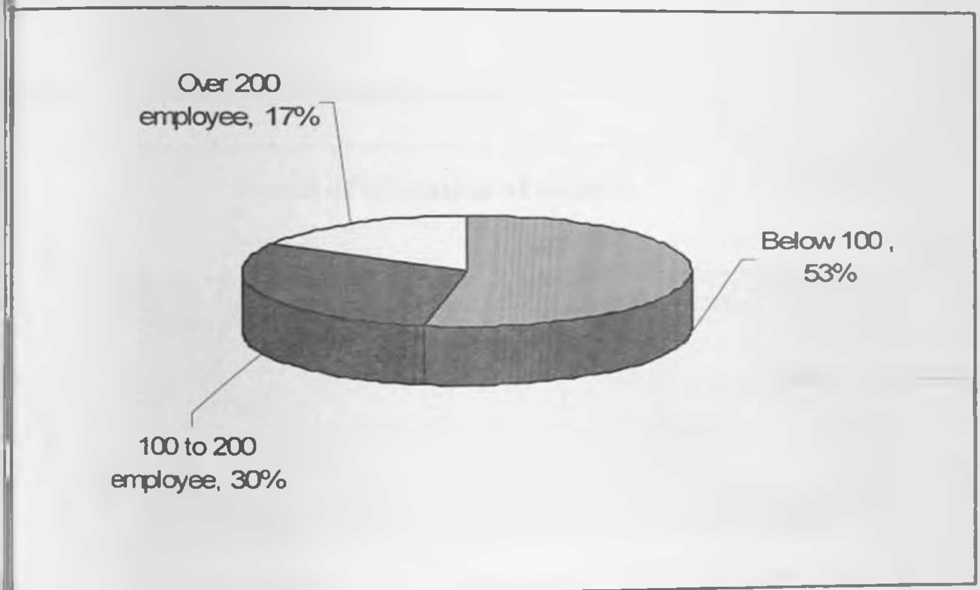


Table 5: Contract employees

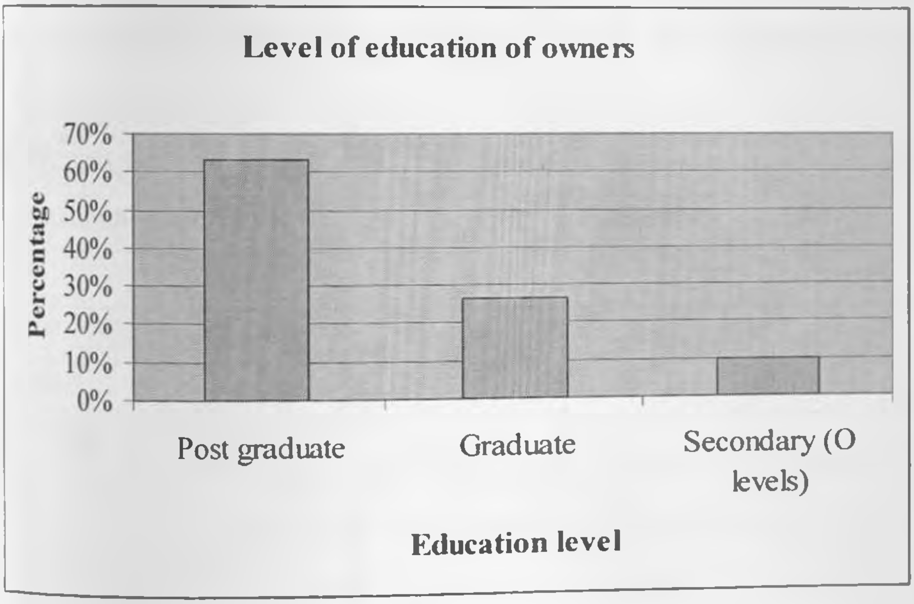
Contract employees	Frequency	Percentage
Below 100	16	53%
100 to 200 employee	9	30%
Over 200 employee	5	17%
Total	**30**	**100%**

4.4 Characteristics of the Owner and Top management

4.4.1 Level of education for the owner

The findings indicate that a majority of the owners had attained post graduate level of education; this was represented by about 60% of the respondents. 25% of the respondents had attained graduate level of education followed by 10% of the respondent who had attained secondary level. The findings confirm that to be able to successfully own and operate a multinational small business, one needs some acceptable level of education, this may be due to the fact that good level of education gives confidence and enables one to identify emerging opportunities in a globalising world. The figure below shows the findings.

Figure 4: Level of education of owner



4.4.2 Where the owners attend school

The findings indicate that a majority of the owners of the respondent SMEs had schooled in Kenya and was represented by 83%. This was followed by 17% of the respondent who had schooled in foreign schools. The findings indicate that one does not need to school in the foreign countries to be able to start a business and make it successful, good education in the local system is adequate. The table below shows the findings.

Table 6: **Place of schooling**

Place of schooling	Frequency	Percentage
Kenya	25	83%
Foreign school	5	17%
Total	**30**	**100%**

4.4.3 Whether the owners have any international experience

The findings indicate that a majority of the owners had international experience, 30% had international experience in the United states of America, 23% in the Middle East and 20% in Europe. This may be attributed to the fact that these countries offer an enabling environment for establishing small businesses and offers great lessons to aspiring entrepreneurs. This exposure also opens up the individuals' horizons and access new business ideas. The table below shows the findings.

Table 7: **International Experience**

International experience	Frequency	Percentage
USA	9	30%
Middle East	7	23%
Europe	6	20%
East Africa	5	17%
Asia	3	10%
Total	**30**	**100%**

4.5 Markets served (Export Participation)

4.5.1 Markets served other than the domestic market

The findings indicate that a majority of the respondent firms have served East and Central Africa. This was evidenced by 27% of the respondents reporting that Tanzania was their leading market. This was followed by Uganda being served by 23% of the respondents. The findings show that EAC presents itself as big market for SMEs products. The other respondent also served markets in the Great Lakes Region and Southern Sudan. The table below shows the findings.

Table 8: **Markets served**

Markets Served	Frequency	Percentage
Tanzania	8	27%
Uganda	7	23%
Rwanda	6	20%
Democratic Republic of Congo (DRC)	5	17%
Burundi	3	10%
Others	1	3%
Total	**30**	**100%**

4.5.2 Origin of the need to start exporting

The findings show that the majority of the respondents were motivated to start looking for markets outside Kenya by increased competition locally and this was indicated by 33% of the respondents. Another 30% of the respondents reported that they started exporting due to technology advantage, with 13% indicating that they started exporting due to expansion needs. A few reported that the unsolicited orders made them realise that their products had demand in foreign markets hence started pursuing exports. The table below shows the findings.

Table 9: **Need to Export**

Need to export	Frequency	Percentage
Increased competition locally	10	33%
Technology advantage	9	30%
Expansion	4	13%
Foreign orders	2	7%
Market opportunity	2	7%
Reduce overdependence on local market	1	3%
Unique products	1	3%
Excess capacity	1	3%
Total	30	**100%**

5.3 Methods used in entering the foreign/export markets

ıe respondents reported that they used franchising as a method of entering into the foreign or port market and this was represented by 23% of the respondent. Results show that 20% of the spondents used exporting to reach or enter the foreign market. The other respondent SME firms ed wholly owned foreign subsidiaries to reach and serve the foreign market. The results are esented in the table below.

able 10: Methods used to enter the market

lethods	Frequency	Percentage
anchising	7	23%
xporting	6	20%
holly owned foreign subsidiary	6	20%
icensing	5	17%
ontract manufacturing	3	10%
ssembly	2	7%
oint ventures	1	3%
Total	**30**	**100%**

.5.4 Stages on the process through which the company went through in developing export activities

The findings indicate that a majority of the respondents approached internationalisation using rocess nine and was represented by 27% of the respondents. This was followed by 17% of the espondents who used process five as a means of internationalisation. Annex II gives a detailed lescription of the internationalisation. The table below shows the findings.

Table 11: **Stages on the Process of Internationalization**

Internationalization processes	Frequency	Percentage
9	8	27%
5	5	17%
4	4	13%
7	3	10%
2	2	7%
6	2	7%
10	2	7%
1	1	3%
3	1	3%
8	1	3%
11	1	3%
Total	**30**	**100%**

4.5.5 Factors Influencing Company's Initial Choice of Countries to Serve

The majority of the SMEs reported that the choice of country to target for export to was based on the proximity and was represented by 47% of the respondents. This may have been a popular factor due to less transportation costs. The response received showed that 37% of the respondent indicated language as an important factor in considering the country to target for export. The table below shows the findings of the study.

Table 12: **Factors Influencing Choice of Country**

Factors influencing initial choice of country	Frequency	Percentage
Proximity	14	47%
Language	11	37%
Culture similarity	3	10%
Presence of social ties	2	7%
Total	30	**100%**

4.6 Business Strategies Employed in Internationalisation

4.6.1 Pricing strategies

The findings indicate that a majority of the respondents represented by 50% of the respondents used the strategy of pricing below competitors. This strategy was likely to work properly because most businesses compete on the prices thereby indicating that the consumers in these markets are price sensitive. Another 33% of the respondents reported that they set prices same as their competitors as a strategy of internationalisation. Only 10% indicated that they priced their products above their competitors. The table below shows the findings.

Table 13: **Pricing Strategies**

Pricing strategies	Frequency	Percentage
Price below competitors	15	50%
Price same as competitors	10	33%
Price above competitors	3	10%
Price same as in domestic market	2	7%
Total	**30**	**100%**

4.6.2 Product Strategies

The majority of the respondents, 63% reported that they sold the same products in foreign markets as they did in Kenya. This was the most popular product strategy used by the businesses. Another 27% of the respondents reported that they used new products as a strategy to serve the export markets. Few companies used the strategy of customising their products to suit foreign markets and this was represented by 10% of the respondent. The table below shows the findings.

Table 14: **Product Strategies**

Product Strategies	Frequency	Percentage
Same as in local market	19	63%
New products	8	27%
Customized to suit foreign market	3	10%
Total	**30**	**100%**

4.6.3 Distribution strategies

The findings indicate that majority of the respondents use their own distribution networks to serve the foreign markets and this was represented by 30%. While 27% of the respondent reported that they used their own retail outlets to distribute their products. Another 23% of the respondent indicated that they used direct sales to retail outlets as a method of distribution. The table below shows the findings.

Table 15: **Distribution Strategies**

Distribution strategies	Frequency	Percentage
Own distribution networks	9	30%
own retail outlets	8	27%
Direct sales to retail outlets	7	23%
Bonded warehouses in foreign market	4	13%
Piggy backing	2	7%
Total	**30**	**100%**

4.6.4 Backup/after-sales services offered to foreign customers

The findings show that the most commonly used after sales services by the respondents was the provision of warranty to their customers. This was represented by 50% of the respondent. While another 40% of the respondent gave guarantees on repairs and maintenance to their customer after sales. The table below presents the findings.

Table 16: **After Sales Services**

After sales services	Frequency	Percentage
Warranty	15	50%
Repairs and maintenance	12	40%
Delivery	2	7%
Other	1	3%
Total	**30**	**100%**

4.7 Research and Development

From the respondents, it was established that most companies did not have a dedicated team involved in research and development. The respondents however indicated that they rely on market intelligence to study the trend in their activities. They relied mainly on visiting technology fairs in Europe, India and China to see the latest developments.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusions and recommendations. The conclusions and recommendations were derived based on the objectives of the study.

5.2 Summary of Findings

Most of the businesses had operated for between 5-10 years and was represented by 63%. The interviewed companies manufacture a variety of products, most of which are related to building, construction and plastic goods. The respondents also reported to be producing consumer products especially agro-processed goods such as tomato sauce. The products manufactured are very unique to each and every detail with 77% of the respondents stating that the products being offered to their customers are uniquely identified by their design and packaging. The respondents indicated that the most important aspect of their products is the ability to uniquely identify a product and make it different from other competitors' products.

Thirteen (13) out of thirty (30) respondents had a value of assets ranging from Ksh. 50million to Ksh.100 million. This was followed by nine (9) who had a value of assets of between Ksh. 100 million to Ksh.150 million. The results show that a majority of the respondents i.e. 47% or fourteen (14) out of the thirty (30) companies had current assets of up to 50 million. This was followed by 30% of the respondents had current assets of between Ksh. 50 million to Ksh. 100 million.

The current assets represent the ability of a company to meet its current obligations, such as creditors and day to day expenses. The findings indicate that a majority of the respondents had average turnover of below Ksh. 100 million. This was followed by 37% of the respondents who had annual turn over of between Ksh. 100 million to 150 million and 13% had turn over of between Ksh. 150 million to Ksh. 200 million.

As regards profitability, 53% of the respondent had a net profit of between Ksh. 30 million and Ksh.50 million. This was followed by 20% of the respondent who had a net profit of between Ksh. 10 million and Ksh. 30 million. The net profit of a company represents the excess of operating expenses over the gross profit. Gross profit is the net of cost of sales over the gross sales. A company with large net profit is able to have good cash flow position.

A majority of the firms had below 100 employees represented by 53% of the respondents; this was followed by 30% who had 100 to 200 employees. The number of employees in a firm is also a basis of determining the size of the firm, since the respondents were small and medium businesses, the range of employees should be in the range of up to 200 employees. Most of the respondents reported to engage employees on contract.

In relation to level of education, a majority of the owners had attained post graduate level of education and this was represented by about 60% of the respondents. Another 25% of the respondents' owners had attained graduate level of education, followed by 10% of the respondent who had attained secondary level. The findings confirm that to be able to successfully own and operate a multinational small and medium business, one needs to have attained some acceptable level of education. This may be due to the fact that good level of education gives confidence. A majority of the owners of the multinational small businesses had schooled in Kenya, this was represented by 83% and was followed by 17% of the respondents who had schooled in foreign schools. The findings indicate that one does not need to school in the foreign countries to be able to start a business and make it successful, good education in the local system is adequate.

A majority of the owners had international experience with 30% having had international experience in the United states of America, 23% in the Middle East and 20% in Europe. This may be attributed to the fact that these countries offer an enabling environment for establishing small businesses. The findings indicate that a majority of the owners had served in China and was represented by 27%, followed by Dubai which was being served by 23% of the respondents. The findings show that a big market exists in the East Africa Community and COMESA. The other respondent also served in France and Canada. Majority of the respondents were triggered to start exporting by increased competition locally, this was indicated by 33% of the respondent followed by 30% who started exporting due to technology advantage. This was followed by 13% of the respondents who had started exporting due to expansion needs.

The respondents reported that they used franchising as a method of entering the foreign or export market and was represented by 23% of the SMEs. Another 20% of the respondents used exporting to reach or enter the foreign market. Other respondent firms equally used wholly owned foreign subsidiaries to reach the foreign market. The findings indicate that a majority of the respondents approached internationalisation using process nine, this was represented by 27%, and this was followed by 17% of the respondents who used process five as a means of internationalisation. The findings indicate that according to a majority of the respondents, the choice of country for business development was proximity to the country chosen as market, this was represented by 47% of the respondents. Proximity may have been a popular factor due to less transportation costs, 37% of the respondent indicated that, language as a factor was an important factor in ensuring good choice of country.

A majority of the respondents 50%, used the strategy of price below competitors. This strategy is likely to work out properly because most businesses compete on the prices. Another 33% of the respondent showed that they set prices same as their competitors as a strategy of internationalisation. The majority of the respondents, 63% stated that they customize their products to suit foreign market, this is the most popular product strategy used by the businesses. The use of new products as a product strategy was reported by 27% of the respondents, followed by 10% SMEs who use same strategies as in the local market. The findings indicate that a majority of the respondents use own distribution networks as a distribution strategy and was represented by 30%. The 27% of the respondent reported to use their own retail outlets to distribute their products with another 23% using direct sales to retail outlets as a method of distribution.

Among the after sales services offered, majority of the respondents gave warranty to their customers and was represented by 50%. Another 40% of the respondent give free delivery to their customer after sales. The respondent indicated that was is no dedicated team involved in research and development, this was mainly because, the sample of businesses chosen were mainly small, they were therefore not able to have a dedicated team of researchers. The respondents however indicated that they rely on market intelligence to study the trend in their activities.

5.3 Conclusion

The objective of the study was to determine the internationalisation strategies used by small and Medium enterprises in the process of internationalisation. In relation to market entry strategy, it can be concluded that SMEs used franchising as a method of entering the export market. In relation to the most popular process used, it can be concluded that the respondents approached internationalisation using process nine, this was. The choice of country for business development was proximity to the country chosen as market, proximity may have been a popular factor due to less transportation costs.

In relation to the pricing strategies, it can be concluded that the small and micro enterprises used the strategy of price below competitors. This strategy is was deemed favourable because most businesses compete on the prices since consumers in their target markets were price sensitive. Also there was high competition, thereby high prices would push the company out of the market. The majority of the respondents sold the same products in foreign markets as they did in the local market. A few respondents reported that they used new or customised products as a strategy to serve the export markets. A majority of the respondents use own distribution networks as a distribution strategy.

Among the back up after sales services, the majority of the respondents gave warranty to their customers, free delivery to their customer after sales. There was no dedicated team involved in research and development, however, respondents indicated that they rely on market intelligence to study the trend in their activities. They relied mainly on visiting technology fairs in Europe, India and China to see the latest developments.

5.4 Recommendations

In relation to the findings of the study, the study recommends that a deeper insight into the activities of internationalisation by small and micro enterprises should be undertaken adequately. Specific areas of research should revolve around the challenges experienced in international market and the strategies employed in dealing with the challenges. Particular attention needs to be focussed on the ability of the firms to endure these challenges and make a difference in their activities.

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APPENDIX I: QUESTIONNAIRE

A SURVEY ON BUSINESS STRATEGIES EMPLOYED BY SMALL AND MEDIUM ENTERPRISES (SMEs) IN INTERNATIONALISATION

1. Company Details

1.1. Company Name: ....

P.O. Box ....

Street .... Building ....

Tel: .... Fax: ....

E-mail:................................ Website:...............................

Name of Respondent: ....

Tittle: ....

2. Age and Nature of the Business

2.1. When was the business started? ....

2.2. What Products do you manufacture?

....
....
....
....
....

2.3. Do your products have any unique characteristics as compared to your competitors?

☐ Yes

☐ No

If yes which ones?

....

....

3. Size of the firm

3.1. What is the value of your firms fixed assets in KSh. .... KSh.

3.2. What is the value of your firms current assets

Locally .... KSh.

Foreign markets .... KSh.

3.3. What is your firm's average annual turnover

Local sales .... KSh.

Foreign sales ....Ksh.

3.4. What was the net profit of your firm during the last financial year? .... KSh.

3.5. How many employees do you have in the following categories

Permanent ....

Contract ....

Casual ....

4. **Characteristics of the Owner (at time of internationalisation) and Top management**

4.1. What is the level of education for the owner?

☐ Post graduate

☐ Graduate

☐ Secondary (O and A level)

4.2. Where did the owner(s) attend school

☐ Kenya

☐ Foreign country (state) ....

4.3. Do any of the owners have international experience?

Country	**Designation**	**No. of Years**

4.4. State the highest level of education for the top management

☐ Post graduate

☐ Graduate

☐

Secondary (O and A level)

4.5. Do any of the top managers have international work experience?

Country	Designation	No. of Years

5. Markets served (Export Participation)

5.1. Which markets do you serve other than the domestic market? (list the countries)

....

....

....

....

5.2. What is the proportion of your foreign sales to your total sales revenue?

....

....

5.3. Which year did you first serve customers in foreign markets?

....

5.4. What necessitated your companies need to start exporting?(please tick)

- [ ] Orders from foreign buyers
- [ ] Migration and/or expansion of domestic customer to foreign market
- [ ] Desire to increase sales
- [ ] Wish to grow
- [ ] Increased competition at home market
- [ ] Identified market opportunity in foreign markets
- [ ] Reduce over-dependence on local market
- [ ] Unique products
- [ ] Technology advantage
- [ ] Managerial commitment to exporting
- [ ] Existence of excess production capacity
- [ ] Declining sales in domestic market
- [ ] Others (state) ....

5.5. Which of the following methods did your company use in entering the foreign/export markets and with which products

Exporting	
Assembly	
Contract manufacturing	
Management service contract	

Licensing	
Franchising	
Joint ventures	
Strategic alliances	
Mergers	
Consolidation	
Wholly owned foreign subsidiary	

5.6. Which of the following stages best describes the process through which your company went through in developing export activities

	Stages in Internationalisation Process					
	Stage 1	**Stage 2**	**Stage 3**	**Stage 4**	**Stage 5**	**Stage 6**
1.	No regular export activity, no resource commitment abroad	Exporting to psychologically close countries via agents	Exporting to more distant countries			

2.	No interest in exporting	Passive exploration of exporting	Management actively explore the feasibility to export	Experimental exporting to close countries	Experienced exporter	Exporting to additional distant countries
3.	No willingness to start exporting	Moderate willingness to start exporting	High willingness to start exporting			
4.	Importer pull/ foreign customer order	Basic production capacity marketing	Advanced production capacity marketing	Product marketing channel push	Product market channel pull	
5.	Selling only in the home market	Evaluation of feasibility to export	Limited exporting to distant countries	Exporting to new countries using direct distributions methods	Allocating resources between domestic and foreign markets	
6.	Completely uninterested firm	Exporting is desirable but an uncertain activity	Plan for export and actively exploring export possibilities	Export attitude but little exploitation of export possibilities	Favourable attitude and active involvement in exporting	Very favourable export attitudes and future export plans

7.	Non-exporters who have never considered exporting	Non-exporters who investigated exporting and previous exporters		Current exporters with no direct investment abroad		
8.	Lower stage of export involvement	Middle stage of export involvement	Higher stage of export involvement			
9.	Recognition of exporting as an opportunity	Interest in selecting exporting as a viable strategy	Intention to initiate exports	Trial and adoption of exporting		
10.	Non exporters indicating no current level of exporting nor any future interest in exporting	Non exporters who would like to explore export opportunities	Sporadic involvement in export activities	Regular involvement in exporting activities		
11.	Completely uninterested firm	Partially interested firm	Exporting firm	Experimental exporter	Experienced small exporter	Experienced large exporter

5.7. What factors influenced your company's initial choice of countries to serve?

- ☐ Language
- ☐ Proximity
- ☐ Culture similarity
- ☐ Presence of social ties (relatives, acquaintances, etc)

5.8. How did you determine the viability of the target country as a market?

6. Business Strategies Employed in Internationalisation

6.1. What strategies do you employ in the export markets?

		Strategies employed
1	Pricing	Price above competitors
		Price below competitors
		Price same as competitors
		Price same as in domestic market
2.	Products	Same as in local market
		Customised to suit foreign market

		New products
3.	Marketing	
4.	Distribution	Piggy backing
		Own distribution networks
		Bonded warehouses in foreign market
		Direct sales to retail outlets
		Own retail outlets

6.2. What backup/after-sales services do you offer to your foreign customers?

....

....

....

....

7. Research and Development

7.1. Do you have a dedicated team on research and development

☐ Yes

☐ No

If yes. what is the focus of your research?

....
....
....

7.2. How often does your company produce new products?

Every ....months

7.3. How long does it take your company to develop a new product?

....

7.4. What is the normal average life cycle of your company's products?

....

7.5. What is your firm's ratio of research and development expenditure to sales?

....