A SURVEY OF THE EXTENT OF GLOBAL OPERATIONS OF LOCAL MANUFACTURING FIRMS IN NAIROBI

BY

PAULINE WAMBUI MWANGI

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DECLARATION

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

Signed: ______________________

Pauline Wambui Mwangi

Student

Date : 31st October, 2003

This Management project has been submitted for examination with my approval as University supervisor.

Signed: ______________________

Jackson Maalu

Lecturer,

Department of Business Administatrtion,

Faculty of Commerce,

University of Nairobi.

Date: 4/4/03

DEDICATION

I dedicate this project report to my mother, Nancy Mwangi and my two dear brothers Peter Mwangi and Paul Wachira Mwangi, whose unwavering support, love and encouragement I truly value.

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My most profound gratitude is to God for keeping his hand on me.

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ABSTRACT

The study was undertaken on manufacturing firms that have Kenya as their country of original registration, hitherto referred to as local firms. The study sought to establish the extent of globalization of local firms and the factors facilitating and those constraining globalisation of local firms.

For determining the extent of globalisation of local firms, the Uppsala model was adopted that contains the following four stages:

- No regular export activities.
- Export via overseas agents or independent representatives.
- Establishment of an overseas sales subsidiary.
- Overseas manufacturing production.

Fifty firms were picked to form the sample of the study using systematic random sampling from the firms listed in the Kenya Association of Manufacturers (KAM) as at August 2002.

The study found that most local firms that export products are in the second stage of globalisation that is they are exporting through overseas agents or independent representatives. This implies that there is room for firms to move to the other stages of the model and expand their horizons as well as their market. The study also found that the main reasons that local firms are globalizing are to exploit foreign market opportunities and the presence of more competitors in Kenya leading to saturation of the market in Kenya. They are also keen to utilize synergies possible by exploiting the economies of scale arising from higher production capacities as well as exploiting excess capacity. Other important factors are to extend the product life cycle and take advantage of tax benefits.

The study found the following to be the facilitators of globalization for Kenyan firms were the political factors in Kenya, accessibility of information on foreign markets and investment opportunities, foreign currency deregulation as well as the current regional trading blocks. Others are economic considerations and the availability and accessibility of capital.

On the other hand several constraints were identified as hindering the practice of globalization. These include the political factors affecting neighbouring countries, government regulations and the trade barriers facing Kenyan firms wanting to export goods to foreign markets.

The study used primary data collected through a questionnaire administered to 50 respondents located in Nairobi. However only 35 of these returned filled questionnaires.

LIST OF ABBREVIATIONS AND ACRONYMS

AD	Anti Dumping Measures
AGOA	African Growth and Opportunity Act
COMESA	Common Market for East and Southern Africa
CV	Counter Veiling Measures
EAC	East Africa Community
EU	European Union
GATT	General Agreement on Trade and Tariff
ICT	Information and Communication Technology
IMF	International Monetary Fund
IT	Information Technology
IS	Import Substitution
KAM	Kenya Association of Manufacturers
KBS	Kenya Bureau of Standards
LDCs	Less Developed Countries
OECD	Organisation for Economic Cooperation and Development
TNCs	Trans-National Corporations
SAPs	Structural Adjustment Programs
SMEs	Small and Middle-sized Enterprises
WB	World Bank
WTO	World Trade Organization

CHAPTER I. INTRODUCTION

1.1 Background to the Study

All firms exist and operate within economic systems. An economic system is a framework in which production is organized and distributed. There are two types of economic systems, namely, the planned and the market economy (Ryan and Richards, 1994). In a planned economy, all the decisions are taken by the state whereas in a market economy the state has no or has very little role to play in the directing of resources. However, most countries have systems, which are mixtures of both the planned, and market systems.

An economic system which combines elements of both state direction of resources and free market choice is known as a mixed economy. From independence, Kenya had protective controls on interest rates, prices, credit guidelines, exchange rates, import licensing, allocation of foreign exchange, letters of no objection and a centrally planned economy. Initially, these controls were necessary in developing entrepreneurial skills and protecting sectors, which would have been neglected in a market economy - the infant industry theory. These controls, however, led to distortion in prices with inefficient production methods leading to high prices, poor quality and delivery due to inadequate competition, emergence of monopolies and cartels.

Liberalization and privatization policies were however put in place by the government in 1992 setting the ground for the globalization of the Kenyan economy (Aseto and Akelo, 1996). There was hence a transition to a market determined economy where most controls were removed. They were replaced by budgets, development plans and sessional papers used as broad policy guidelines rather than specific targets. This was in line with the global trend, where economies are adopting liberalization policies to attain competitiveness.

A business is internationalized when it operates or sells its products in foreign countries. Various studies have been carried out with regard to internationalisation. A study carried out in Australia to investigate the extent to which the internationalisation of the Australian economy has been reflected in resource reallocations, changes in firm behaviour, and improved aggregate productivity (Mann 2001). The major conclusions were that first the opening-up of Australia has yielded greater specialisation by firms) as well as by labour in its employment. The second is that opening-up appears to affect firm performance more through 'outward orientation' than through changes in domestic market competition caused by opening-up. And finally as yet, there is little evidence for an improvement in labour productivity, either within industry sectors or for the aggregate economy. The authors attribute this to the still on-going process of adjustment, as well as to the fact that many firms remain insulated from international competition.

Studies on the internationalisation of small and medium-sized enterprises (SMEs) in 18 OECD countries had the following major findings. They found that the factors that first precipitate the internationalisation of SMEs are different from those that determine the longer-term success. SMEs are more likely to precipitate OECD countries international activity if they are growth oriented, and they have already been established in a home base; larger and older SMEs are more likely to internationalise than smaller newer ones. Exceptions occur mostly where the market that the SME is in is inherently global, in which case the SME may set up as a global operator from the outset. Smaller SMEs are less likely to use formal planning methods than their larger counterparts and more likely to adopt a reactive approach where chance plays an important part. Irrespective of size, the initial moves abroad are most likely to be too geographically or culturally -similar markets, and are most likely to involve "export" from a home base. (OECD studies on internationalisation of SMEs)

The studies undertaken have come up with several reasons or forces for which firms may seek business opportunities abroad. The major reasons or forces include the following: Market saturation at home; economies of scale; extend the product life cycle; risk diversification, sourcing economics; exploit foreign market opportunities; presence in competitors' home markets and oligopolistic reaction. Others are to overcome foreign market trade barriers; utilize excess capacity; management enthusiasm; tax benefits; dumping; stabilization of demand and prestige.

Liberalisation of trade all over the world has been a major factor in internationalisation and globalisation. According to Madeley and Solagral (2001) trade liberalisation is a process of systematically reducing and eventually eliminating all tariff and non-tariff barriers between countries as trading partners. It builds on the theory of comparative advantage in a free market, which holds that countries will benefit more if they focus their resources on sectors in which they have some sort of advantage and that the free market is the best mechanism for ensuring the optimal allocation of resources. The wealth generated as a result will benefit the economy as a whole.

Internationally trade barriers have been lifted gradually through the GATT and WTO negotiations. Trade barriers between nations have been radically removed through free-trade arrangements worldwide and between nation states. For instance 1999 saw trading agreements between China and the U.S.A. that were previously in opposite sides of the divide with the communism of China and U.S.A. being the epitome of capitalism.

Politically new open policies have been pursued against foreign trade and investments (e.g. in China, East Asia, Latin America and in the "New" Europe). Trade and investment opportunities therefore are being enabled more freely than ever before in history in the late 1990s. Globalization contains also a temporal element because it is closely related to the "time-space compression" phenomenon as described by Harvey (1996). This means, according to him, that both temporal as well as spatial (geographical) processes can be reduced and compressed into "here and now" trade and information exchange over the globe - if available contemporary infrastructure, communication and IT-devices are put in place together with skilled people. The global financial market is a good example.

Accelerating speed of information together with rapidly developing information and communication technology (ICT) developments and the invention of software enabling real-time information exchange is a part of the globalization phenomenon. Everything gets smaller and faster and reaches more people and places around the globe, hence approaching what Bill Gates (2001) refers to as a "global village."

A global company is one with activities in all of the world's continents. Globalization is defined as "covering and affecting the whole world" and/or "covering the whole of a group of items". Dickens (1998) defines economic globalization as having both functional as well as geographical entities. The researcher tends to agree with this contention. He claims that globalization means "a shift in traditional patterns of international production, investment and trade". He further contends that economic globalization is; "... not merely the geographical extension of economic activity across national boundaries but also - and more importantly - the functional integration of such internationally dispersed activities" (Dickens, 1998 p. 5). Globalization means also to enable a global geographical reach in terms of markets and competition, trade and investment, in relation to the operations of the firm (Levitt, 1983).

1.2 Statement of the Problem

The phenomenal growth in science and technology, particularly in information and communication technologies affords firms all around the globe a unique opportunity. Globalization is a reality that all competitive firms must face and contend with. There is therefore urgent need for the indigenous Kenyan manufacturing firms to adopt long-term strategies for development with related policy statements to position themselves towards greater competitiveness regionally, within COMESA and globally.

The ability of the local firms to take advantage of the opportunities that emerge will determine how successfully Kenya will compete on the global market .The World Bank predicts that "*those countries will prosper that are best able to capitalize on the opportunities of globalization while effectively managing its risks. Countries that do not adapt will fall further and further behind, spelling wider gaps between the 'haves' and 'have nots'*." (World Bank Global Economics Prospects 2000 report)

Given the shrinking domestic market, declining economy and increased competition from imported goods, most business managers generally know and appreciate the significance of globalization. However, it is one thing to know and another to value it appropriately. In view of these facts, the following questions arise:

- What is the relative importance that firms attach to globalizing?
- To what extent have the firms globalized?
- What factors facilitate or constrain the firms' efforts to globalize?

To the best of the knowledge of the researcher, no such research has been conducted in Kenya.

1.3 Research Objectives

The broad objective of this study is to investigate the extent of globalization by the local manufacturing firms in Nairobi.

The specific objectives are to:

i. Evaluate the relative importance firms attach to globalization

ii. Establish the extent of globalization of local manufacturing firms in Nairobi;

iii. Identify the factors influencing the pace and direction of Globalization of local manufacturing firms in Nairobi.

1.4 Significance of the study

The findings of this study would be of interest and value to various persons as follows

(a) The study will provide information that would be useful generally to the Government of Kenya in the design and implementation of trade policies directed to globalization factors considered by Kenyan indigenous firms

(b) The study would be useful to ministries involved in trade and industry so as to improve the environment of the local firms so they may be able to compete globally

(c) Scholars would use the findings of this study for further research in globalization.

(d) The study would give added information on globalization to business related courses trainers as well as training institutions endeavoring to teach international trade in their curriculum.

(e) The Kenya Association of Manufacturers could find the results of this study valuable for enriching the indigenous Kenyan firms strategies adopted for globalization.

CHAPTER 2. LITERATURE REVIEW

2.1. Liberalization and Globalization

The liberal economic perspective originates in the writings of classical economists among them David Ricardo. Economic liberalization was born in part, as a response to, and critique of, mercantilism (Gill, 1993). The commodities and services that a country will export or import are related to the fundamental forces that determine comparative advantage. In developing this theory, David Ricardo (1817) focused on the relative differences in labour productivity in producing goods (Meier, 1995).

2.1.1 Comparative Advantage of Nations

Interdependencies between regions and locations are developing through competition and increasing intra- and interregional exchange for utilizing regional disparities as economic s trength a nd c omparative a dvantage. T he l atter i s r eferring t o t he i dentical theory from David Ricardo, who pointed out that countries possess different production endowments (natural r esources, labour, technology, management) l eading t o d ifferent relative production capabilities.

Countries can enhance their comparative advantage on the world market with greater specialization in their production. The world economy provides a large source of supply and demand, so that international trade increases the possibilities for efficient production through specialization, economies of scale and complementary strategies.

The international operating firms and transnational corporations (TNCs) are important market participants in the world trading system. They are directed towards specialization and internationalization of supply across the world.

2.1.2 Integration of Nation States into the World Economy

Nation states exercising full sovereignty and jurisdiction on their territory are gradually integrating into the world economy. International organizations exist in many ways: Public or private, unifunctional or multifunctional, global or regional. Their performance and effectiveness measure the progress states are making towards cooperation. Here, the United Nations is the most important factor in coordinating global policies (Henderson, 1997). This kind of global governance is a catalyst for global policy balancing out geopolitical interests, strengthening interdependencies, diminishing regional conflicts and developing international law to enhance cooperation and coordination.

2.2 Theories of the process of globalization

The behaviour and stages firms go through in the process of globalization has been a subject of research for decades. The following models are prominent among the efforts by scholars to understand the process.

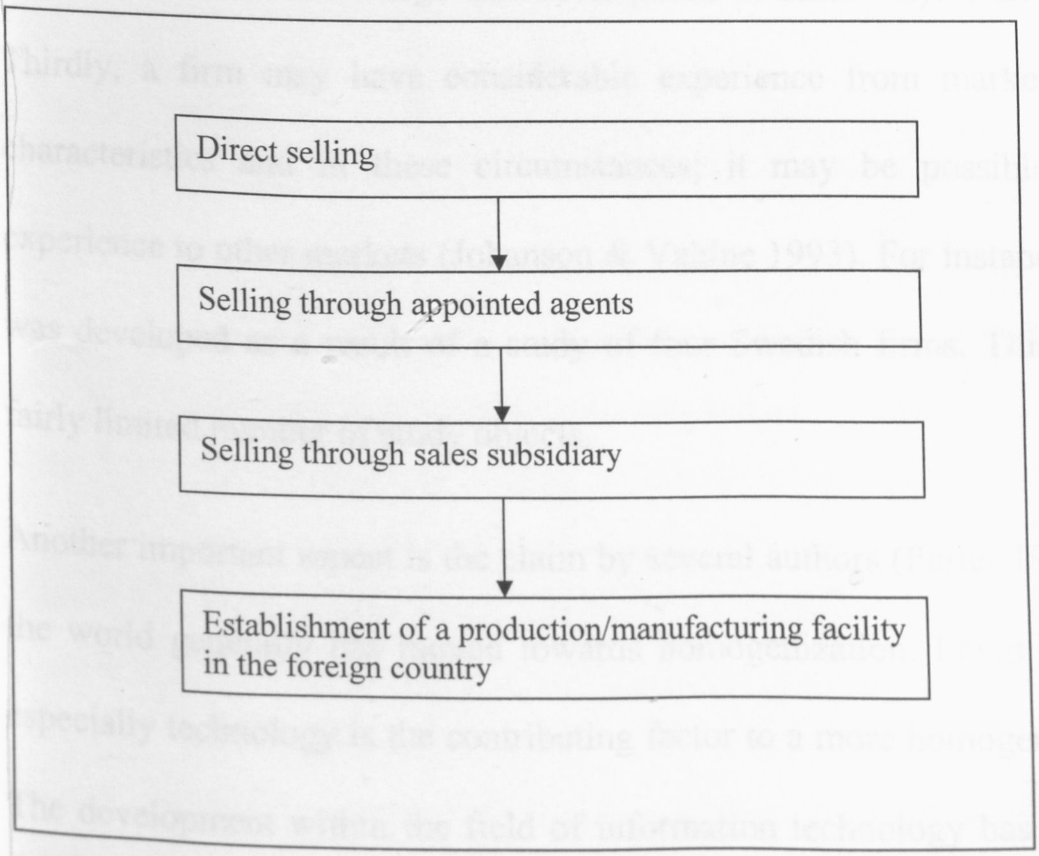
2.2.1 The Uppsala School Model

Welch and Luostarinen (1988) define internationalization as follows: "... the process of increasing involvement in international operations..." Aharoni (1966) was the first to conduct a study from a more longitudinal view. Aharoni's work is important since it paved the way for other studies of the firm's internationalization process. His findings have been a source of inspiration for future research. Some years later the longitudinal approach was developed a stage further in studies of internationalization in Nordic firms. The original model is the so-called Uppsala-model (the U-model) that was developed in the 70s by among others Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977).

The model enunciates four stages that describe the firms' level of internationalization. According to the model a firm often initiates its internationalization process by direct exporting to a foreign country. This constitutes the first stage of the globalization process.

After some time the firm starts exporting with the help of independent representatives (agents) abroad. This is also called indirect exporting and is the second stage in the process. The third stage in the process is to develop sales subsidiaries in a foreign country or countries. The fourth and last stage in the model is the establishment of a production/manufacturing facility abroad. (Johanson & Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977)

A basic assumption of the model is that one cycle of events constitutes the input of the next. This indicates that the present state of internationalization is an important factor in explaining the direction of further internationalization. This theory of the internationalization process is broadly accepted. The diagram below gives a depiction of the Uppsala model.



The Uppsala model

Criticisms of the Uppsala model

Several criticisms of the model have come to the fore outlining its shortcomings. These include the following: First, when firms, for example large firms, have surplus resources, they can be expected to make larger internationalization steps that are not in line with the Uppsala model.

Secondly when market conditions are stable and homogeneous, it is possible that important market knowledge can be acquired in other ways than through experience. Thirdly, a firm may have considerable experience from markets that have similar characteristics and in these circumstances; it may be possible to generalize this experience to other markets (Johanson & Vahlne 1993). For instance the original model was developed as a result of a study of four Swedish firms. This could be seen as a fairly limited number of study objects.

Another important aspect is the claim by several authors (Porter 1998; Levitt 1983) that the world generally has moved towards homogenization. Levitt (1983) contends that especially technology is the contributing factor to a more homogeneous business world. The development within the field of information technology has "made" the distances between countries smaller, and the communication flows faster.

It may also be difficult to get a clear picture of the different stages in the model as the boundaries may be blurred. Other criticisms are that the model is too deterministic and that the empirical evidence is not clear enough. Turnbull (1987) has criticized the model by claiming that the choice of entry mode is independent of a firm's previous experience in export markets.

These criticisms have led to the recognition of the need for modification or adaptation of the original model to suit it to the current environmental conditions that have changed from those when it was created in the 70s. There has also been recognized a need to address the other shortcomings identified.

2.2.2 Bilkey and Tesar Model

Bilkey and Tesar (1977) studied Wisconsin exporters and identified the following six stages of the process:

Stage 1: Management is not interested in exporting and would not even fill an unsolicited order from a foreign market.

Stage 2: Management is willing to fill solicited orders but makes no effort to explore the feasibility of active exporting.

Stage 3: Management actively explores the feasibility of exporting.

Stage 4: The firm is an exporter on an experimental basis to some psychologically close country.

Stage 5: The firm is an experienced exporter to the psychologically close country.

Stage 6: Management explores the feasibility of exporting to additional countries, which are psychologically more distant.

The concept of psychological closeness of one market to another soon proved to be an important and useful finding. It influenced subsequent research on the subject.

2.2.3 Cavusgil and Nevin model

Cavusgil and Nevin (1980) subsequently refined Bilkey and Tesar's model and revised the stages as follows:

Stage 1: Domestic business - where the firm sells only to the home market.

Stage 2: Pre-export stage - where the firm searches for information and evaluates the feasibility of undertaking exporting.

Stage 3: Experimental involvement - where the firm starts exporting on a limited basis to some psychologically close countries.

Stage 4: Active involvement - where the firm engages in exporting to more new countries, direct exporting and there is increase in export volume.

Stage 5: Committed involvement - where management constantly makes choices in allocating limited resources between domestic and foreign markets.

2.2.4 Incremental Model

According to the incremental model, the internationalization approach does not appear to be a sequence of deliberately planned steps that begin with a clearly defined problem proceeding through a rational analysis of behavioural alternatives. Personal characteristics of the decision-makers, lack of information, perception of risk and presence of uncertainty seem to be especially valuable in understanding a firm's involvement in international business.

2.2.5 Czinkota's Six-Stage Model

Czinkota (1982) in his studies revealed that there are aspects of the internationalization process, which have both a learning sequence as well as export stages. His six-stage model overlaps with the three earlier models, but emphasizes the experimentation aspect and the differences that may be induced by company size. The six stages are as follows:

Stage 1: The completely uninterested firm.

Stage 2: The partially interested firm.

Stage 3: The exploring firm.

Stage 4: The experimental exporter.

Stage 5: The experienced small exporter.

Stage 6: The experienced large exporter.

In this study the main theoretical framework of reference is the Uppsala School theory by Johanson and Wiedersheim(1975). The different steps highlighted in this model that describe the level of internationalization will be used to assess the extent of globalization of the local manufacturing firms in Kenya.

The firms that are in Kenya are generally small firms and usually export their products to the neighbouring countries. The AGOA treaty and the growth of the horticulture industry seem to have promoted the exports from Kenya to the rest of the world. The main criticisms of the Uppsala model are that it does not consider firms with surplus funds to invest and that experiences of firms in some countries can be applied in other countries with similar environments. This does not fully apply to Kenya given that since the liberalisation of the market, firms have been struggling to maintain their market and hence surplus funds have been largely diminished. Most firms in Kenya are small in comparison to firms in the world. The Uppsala model also advocates that countries that are psychologically close are the first candidates for firms to internationalise their operations to. Kenya has in close proximity firms that are close psychologically that is countries like Uganda and Tanzania. This makes the Uppsala model an appropriate model to use to investigate the extent of internationalisation and globalisation.

There are also countries that are largely different psychologically for instance there are many differences in environment between the East African countries and their Central African counterparts with very attractive prospects for exporting from Kenyan firms. The wars that have ravaged many countries in the region have made generalisation of conditions difficult. This further supports the application of the Uppsala model for the Kenyan firms as the learning which is gained from exporting to psychologically close countries first.

The African continent excepting a few countries does not have a widespread adoption of telecommunication technologies. For instance the Kenyan telephone network density is about 1%. This means that though the other countries have available large amounts of information at their disposal for evaluation of foreign markets, this may not always apply for the Kenyan firms hence leading to the reduction in homogeneity as advocated by Porter (1998) and Levitt (1983). However the proliferation of the internet has made things much different even in Kenya.

Once the stage that a firm is in terms of globalization is established the factors that have propelled the firm to that stage will be determined and also the factors constraining the firm from moving to the next stage will be evaluated.

CHAPTER 3 RESEARCH METHODOLOGY

3.1 Introduction

This study sought to explore the extent to which local manufacturing firms in Nairobi have globalized with respect to the Uppsala school model. This study also sought to establish the factors that both restrain and promote the globalization of local firms.

3.2 Population

The population of the study consisted of all the local manufacturing firms based in Nairobi registered by the Kenya Association of Manufacturers as at the end August 2002. Local firms in this population are those firms which have their original registration in Kenya. The nationality of the owner of the firm will not be considered. The firms that fit the above definition as registered by the KAM were 166. These formed the population of the study.

3.3 The sample and sample size

The sample size for this study constituted 50 firms drawn at random. This number of elements in the sample was considered sufficient for the study. This sample size was also adequately representative of the population. The formula for selecting the sample elements was as follows:

Selected number 5 at random .Then item 5 on the top of the list will be the first sampling unit selected to be included in the sample.

The second and subsequent units were selected by adding the skip interval three (3) to the last unit selected until 50 elements were selected.

3.4 Data collection

The research relied on primary data that was collected by means of a questionnaire containing both open ended and close-ended questions. The questionnaire was divided into four parts. Section A consisted of questions that collected the physical and ownership characteristics of the respondent firms and officers. It also addressed the first objective which was the extent of globalization of Kenyan firms. Section B addressed the second objective of the study by focusing on the importance that firms attach to globalization. Sections C and D addressed the third objective which was identifying factors affecting the pace and development of globalization strategies in Kenyan firms. The drop and pick later method was applied to collect data for the study. The target respondents were the general managers/managing directors/ export managers or any other managers responsible for strategy in the firm.

3.5 Data analysis

The data collected was edited for accuracy, uniformity, consistency and completeness and arranged to enable coding and tabulation before final analysis as recommended by Cooper and Schindler (1998). The data was then coded and cross tabulated to enable analysis. Descriptive statistics were used to analyze the data by way of percentages and frequency tables. These were appropriate because of the qualitative nature of the variables.

CHAPTER 4 DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter deals with data analysis, findings and discussions on the research findings. Fifty (50) questionnaires were sent out and out of these thirty five (35) were returned giving a response rate of 70%. However, two (2) of the ones returned were not properly filled and were disregarded in the analysis.

4.2 Characteristics of respondent firms

The firms that responded were distributed over eight industries with the highest coming from the paper based industry (24%) and the lowest from the financial services that had only one respondent (3%). Table 1 gives a breakdown of the firms that responded per industry.

Table 1: Categories of firms that responded.

	Export of firms to external markets				Total	
	Exporting or are considering exporting		Do not export & are not considering exporting			
Industry	**Frequency**	**%**	**Frequency**	**%**	**Frequency**	**%**
Plastic products	5	18	1	20	6	18
Pulp paper and paper boards including printing publishing & allied	6	21	2	40	8	25
Prefabricated metal products and motor vehicles	2	7	0	0	2	6
Wearing apparel and footwear	2	7	1	20	3	9
Chemical products drugs and medicine	5	18	0	0	5	15
Food products, vegetable and animal oils	5	18	1	20	6	18
Financial services	1	4	0	0	1	3
Paints varnishes and lacquers	2	7	0	0	2	6
Total	28	100	5	100	33	100

Source: research data

There does not seem to be a particular industry that has prevalence towards exporting their goods. This is borne out by the distribution of the firms that export as the proportions of those exporting or considering exporting relative to those that are not exporting and not considering exporting are approximately evenly distributed over the industries. However the distribution may not be fully explained by the firms that responded as the responses may not have corresponded with the actual population. Some industries had a smaller response rate compare to other industries hence making comparison difficult.

The firms were also asked to indicate whether the firms were owned by families, partnerships, private companies or limited companies. Table 2 below gives a summary of the results of the ownership of the companies.

Table 2: Ownership of the respondent firms.

	Export of products by firms to external markets				Total	
	Export or are considering exporting		Do not export and are not considering exporting			
Ownership	**Frequency**	**%**	**Frequency**	**%**	**Frequency**	**%**
Family	4	14%	1	20%	5	15%
Partnership	8	29%	1	20%	9	27%
Private company	12	43%	3	60%	15	46%
Public company	4	14%	0	0	4	12%
Total	28	100%		100%	33	100%

source: research data

The above results indicate that most of the firms are private companies that are usually controlled by a few individuals in the ownership. This has the advantage of more autonomy in decision making as they usually do not have many other stakeholders to report to as much as public companies. Globalisation is usually a very expensive venture and has very many risks of failure. Since private companies and those owned by individuals or families are owned by just a few individuals, they are unlikely to take as much risk as the public companies. This probably explains why out of the firms that responded, all the public firms were considering exporting or were already exporting. Hence for internationalisation to be facilitated there is need for the firms to spread the risks between more individuals. Usually the higher the risks involved the higher the returns expected.

The firms that responded had between 20 and 800 employees. Table 3 below gives a summary of the employees of the firms.

Table 3: The number of employees in respondent firms.

	Export of products by firms to external markets					
	Export or are considering exporting		Do not export and are not considering exporting		total	
No. of employees	Frequency	%	Frequency	%	Frequency	%
Less than 30	1	4%	4	80%	5	15%
31- 100	11	39%	1	20%	12	27%
101-200	9	32%	0	0	9	46%
More than 200	7	25%	0	0	7	12%
Total	28	100%	5	100%	33	100%

Source: research data

This indicates that most of the respondent firms were middle sized as those with employees between 31 and 200 constitute 64% of the respondents. It is evident that the larger the firm the more likely it is to internationalize its operations. Of the firms that responded, those with 100 employees or more were either already exporting or were considering doing so. On the other hand out of the five firms having less than 30 employees that responded only one was exporting or considering exporting while the rest were not. Further only 4% of the firms that export or are considering exporting are small. This could be considered to be a major factor influencing the globalisation process and could be attributed to the economies of scale to be gained by higher production volumes necessitated by a larger market base. Therefore size and economies of scale appear to play a big part in the globalisation process

4.3 The extent of globalization

The countries to which exports were done were investigated. Table 4 below gives a summary of the responses in regard to the export of goods to the regional market.

Table 4: Export of locally manufactured products to the regional market

Response	Frequency	%
Exporting or are considering exporting.	28	85%
Do not export and are not considering exporting	5	15%
Total	33	100%

Source: research data

85% of the respondents export or are interested in exporting their products to the regional market. Only 15% of them did not export their products and were not considering exporting their products to the regional market.

The countries that imported Kenyan products are shown in table 5 below.

Table 5 Countries to which local outputs were exported

Country	Frequency	% of respondents
Tanzania	21	63.6
Uganda	19	57.5
Rwanda	19	57.5
Burundi	14	42.4
Ethiopia	5	15.2
Sudan	5	15.2
Eastern Zaire	5	14.3
Seychelles	2	6.1
Malawi	2	6.1

Source: research data

From the data tabulated above, Tanzania, Uganda, Rwanda and Burundi were the main importers of locally manufactured products.

To establish the stage or extent of globalization of operations the respondents were asked to choose the level and kind of operation they undertake. Table 6 below gives a summary of the responses.

Table 6 Level of global operations

Level of Global Operation	Frequency	(%)
Selling on domestic market only	5	15%
Sells on domestic market and evaluates the feasibility of undertaking exporting.	12	36%
Produce locally then overseas seller picks goods from the producer's premises.	13	40%
Licensing foreign firms to produce in their market on your behalf.	nil	nil
Franchising assistance to foreign firms to produce in their market on your firm's your behalf.	nil	nil
Strategic alliances	nil	nil
Joint ventures with foreign firms	2	6%
Use of overseas sales subsidiary	1	3%
Establishment of a manufacturing/production plant in the foreign country	nil	nil

Source: research data

These results indicate that Kenyan firms have international operations, characterized by exports to the region. This gives the extent or level according to the various theories of globalization. As indicated in table 6 above 40% of the respondent firms had the sellers collecting the goods from the firms' premises for selling abroad. Those who sell abroad by undertaking joint ventures with foreign firms were 6% of the respondents. Only one firm or 3% of the sampled firms had a sales subsidiary in the foreign country that it was exporting to. On the other hand 15% were selling locally and had no immediate plans or were not even considering selling abroad. These findings hence show that of the firms that were investigated, globalization is an issue they were either already practicing or were considering adopting (Table 6).

From the findings of this study it can be deduced that most firms were at the first level (17 firms or 51%) though a high number that is 15 firms or 46% were at the second level of global operations in comparison to the Uppsala School Model developed by Johanson and Wiedersheim-Paul (1975) in their empirical study of four actual exporters. The model identified the following four stages of internationalization process:

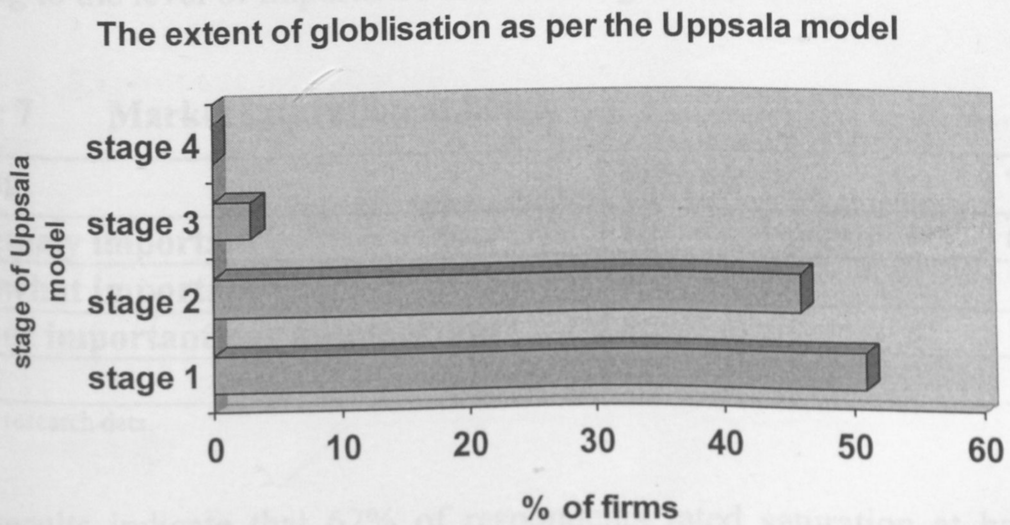
Stage 1: No regular export activities.

Stage 2: Export via overseas agents or independent representatives.

Stage 3: Establishment of an overseas sales subsidiary.

Stage 4: Overseas manufacturing production.

Figure i



The firms in stage 1 are subdivided into 5 firms (15%) that are not considering internationalisation of their activities and 12 firms (36%) that are evaluating the possibilities of exporting their products. This gives credence to the incremental nature of the model where firms are said to first seek information then sell directly to the foreign firm before establishing a sales subsidiary. The number of firms that are selling to foreign firms by use of agents is 13 (40%). This implies that firms in Kenya seem to be in the second stage and the few firms that have moved to the next stage indicate that there are hindrances to moving to the next level or stage.

These hindrances or constraints are investigated in section 4.6 of this chapter.

4.4 Importance of Globalization

On a scale of 1 to 5 with 1 representing not important at all, 2 representing fairly unimportant, 3 standing for neither important nor unimportant, 4 representing somewhat important and 5 standing for extremely important, the respondents rated various factors relating to the level of importance attached to globalization.

Table 7 Market saturation at home

Rating	Frequency	%
Extremely important	18	67%
Somewhat important	4	15%
Neither important nor unimportant	5	18%
Total	27	100%

Source: research data.

The results indicate that 67% of respondents rated saturation at home as extremely important in steering local firms to global markets, 15% somewhat important and 18% rated domestic market saturation as neither important nor unimportant. None of the respondents rated this factor as unimportant to any degree. This means that this factor is a very important factor relating to globalization of local firms in Kenya (Table 7).

The removal of the import ban in May of 1993, (Aseto and Akelo, 1996) and progressive reduction of tariffs in the following years enabled foreign firms to access the Kenyan market. As the effective rates of protection on local value-added decreased accordingly, imported products flooded the market. The prices of imported products therefore decreased whereas their volume increased. The findings reveal that the policies had both positive and negative effects on the local manufacturing firms in Nairobi. There were positive effects on prices, quality, delivery reliability and industry's exports. However, the negative effects were experienced through replacement of local products by the imported products and reduced employment by the manufacturers of local products.

Table 8: Exploit excess capacity

Rating	Frequency	%
Extremely important	15	**56%**
Somewhat important	7	**26%**
Neither important nor unimportant	3	**11%**
Fairly important	2	**7%**
Total	27	**100%**

Source: research data

Excess capacity utilization is rated as extremely important by 56% of the respondents and somewhat important by 26% of the respondents. This gives a total of 82% rating it as important or higher. Thus we can conclude that firms in Kenya consider utilization of excess capacity to be a major consideration in relation to globalization. When a firm has excess capacity, the market for the products becomes imperative and hence it will reach out to external markets. The firm already has undertaken the capital outlay and the relevant cost is the marginal cost which may make the firm to price its products at a lower cost than if the market for its products were not available (Table 8).

Table 9: Economies of scale

Rating	Frequency	%
Extremely important	13	48%
Somewhat important	5	19%
Neither important nor unimportant	3	11%
Fairly unimportant	2	7%
Not important at all	4	15%
Total	27	100%

Source: research data

From Table 9 above, 48% of the respondents contend that economies of s cale are a major reason for firms venturing into foreign markets. They thus rate the factor as extremely important. A further 19% of the respondents rate it as somewhat important giving a total of 67%. This indicates that firms globalize to realize economies of scale. This is further supported by the fact that 11% are indifferent while only 22% view it with any degree of unimportance.

Firms that enjoy a near monopoly or oligopolistic positions in the market may be forced to react when the market is liberalized hence letting in more players. They may hence react by expanding their market to other areas or different products. The respondents indicated as per Table 10 in regard to oligopolistic reactions as the reason for globalization.

Table 10: Oligopolistic reactions

Rating	Frequency	%
Extremely important	2	7%
Somewhat important	3	11%
Neither important nor unimportant	13	48%
Fairly unimportant	5	19%
Not important at all	4	15%
Total	27	100%

Source: research data

Oligopolistic reactions are rated as neither important nor unimportant by 48% of the respondents. Only 18% of the respondents rated the factor as important or higher. However, 19% of the respondents rated it as fairly unimportant while 15% rated it as not important at all. This means that local firms in Kenya do not consider it an important factor for globalizing operations.

Table 11: Extend product cycle

Rating	Frequency	%
Extremely important	6	22%
Somewhat important	11	41%
Neither important nor unimportant	3	11%
Fairly unimportant	2	7%
Not important at all	5	19%
Total	27	100%

Source: research data

22% of the respondents rated the concept of firms globalizing to extend the product life cycles extremely important, 41% of respondents as somewhat important, 11% as neither important nor unimportant, 7% as fairly important and 19% as not important at all. This means that most firms surveyed (63%) felt that their products could experience a longer life span. This is made possible by the diversity of market requirements that the firm taps through global operations (Table 11)

These actions could not have been taken in a protected economy. During this period, the market was dominated by monopoly or oligopoly suppliers. In such an environment, the result is often higher prices and poorer services as lack of competition removes the necessity to keep prices down, improve quality and delivery reliability in order to attract consumers (Gill, 1993).

Table 12: Tax benefit

Rating	Frequency	%
Extremely important	4	15%
Somewhat important	16	59%
Neither important nor unimportant	3	11%
Fairly unimportant	1	4%
Not important at all	3	11%
Total	27	100%

Source: research data

The results of the study as in Table 12 above indicate that 15% of the respondents rated tax benefit accrued to firms on globalizing as extremely important. The majority (59%) rated it as somewhat important; the rest rated it as indifferent, fairly unimportant or not important at all. This means that quite a number of the firms believe that there are benefits to be gained by exporting to other markets in form of taxes.

Another reason for globalisation that was investigated as to whether it applies to Kenyan firms was risk diversification. The firms studied responded as summarized in table 13 below.

Table 13: Risk diversification

Rating	Frequency	%
Extremely important	3	11%
Somewhat important	7	26%
Neither important nor unimportant	11	41%
Fairly unimportant	4	15%
Not important at all	2	7%
Total	27	100%

Source: research data

Table 13 above indicates that 41% of the respondents are undecided or indifferent to risk diversification. 15% find it fairly unimportant, and 7% find it not important at all. Those who rated it as being somewhat important were 26%, while those who felt it was extremely important were 11% of the respondents. This means that the firms do not hold risk diversification as a very important reason for globalizing their operations. This may be because many of the countries in the region are in a similar or worse political state; hence moving into these countries may not be the solution for the firms.

Table 14: Dumping

Rating	Frequency	%
Extremely important	8	30
Somewhat important	7	26%
Neither important nor unimportant	6	22%
Fairly unimportant	2	7%
Not important at all	4	15%
Total	27	100%

Source: research data

The respondents who find dumping of their products in foreign markets as an extremely important consideration in globalizing their operations were 30% of the sample while 26% considered it as somewhat important. However 22 % of respondents view dumping their products in foreign markets as neither important nor unimportant, 7% rated dumping as somewhat important, and 15% of the respondents consider dumping not to be important at all (Table 14)

Many countries actively support local firms to dump products that they do not need by giving subsidies for certain exports. Firms may also have produced goods that they realize they cannot sell in the local market hence they dispose them in countries where the laws are either lax or the authorities are not vigilant in enforcing them

Table 15: Exploit foreign market opportunities

Rating	Frequency	%
Extremely important	19	70%
Somewhat important	7	26%
Neither important nor unimportant	1	4%
Total	27	100%

Source: research data

96% of the respondents consider exploitation of foreign market opportunities as important. This is broken down into 70% who found it to be extremely important and 26% who deemed it somewhat important. Those who did not find it important did not find it unimportant either and represented 4% of the respondents (Table 15).

We can hence conclude from this that market opportunities in other countries are available hence it is one of the major reasons that firms operate globally.

Table 16: Stabilization of demand

Rating	Frequency	%
Extremely important	2	7%
Somewhat important	3	11%
Neither important nor unimportant	8	30%
Fairly unimportant	8	30%
Not important at all	6	22%
Total	27	100%

Source: research data

Only 18% of the respondents felt that stabilization of demand for their products is important to any degree through exploiting foreign market opportunities. 30% were however indifferent as to whether this factor was significant in globalization while 52% either considered it to be fairly unimportant or not important at all. This means that firms in Kenya do not consider this an important factor in globalization. They probably have similar seasonalities for the products locally as in the other countries that are potential markets for their products (Table 16).

Table 17: Presence of competitors in home market

Rating	Frequency	%
Extremely important	8	30%
Somewhat important	12	44%
Neither important nor unimportant	6	22%
Fairly important	1	4%
Total	27	100%

Source: research data

The presence of competitors in the home market seems to have a very significant influence on firms' desire to globalize. This may make them compete on equal terms and give them an opportunity to expand. Results of the study indicate that 74% of the firms sampled find the presence of competitors to be an important factor in globalization. Of these 30% finds it to be extremely important while 44% find it to be somewhat important. 22% of the respondents were undecided on whether they were important or not while 4% felt that the factor was fairly unimportant. There were no firms that considered it not to be important at all. The general or majority feeling therefore was that their presence in a competitor's home market, even on a relatively small scale, can pose a sufficient threat to a competitor that prevents the competitor from attacking the firm's primary markets. This has been recently borne out in Kenya by the beer wars between South African Breweries (Castle) and East African Breweries (Kenya Breweries) competition for market supremacy in the East African region. They eventually had to partition the markets to prevent further losses (Table 17).

Another reason that firms use to operate internationally is to take advantage of sourcing economies. This means that they get preferential rates due to selling in the markets they buy from and get to know the markets well due to the selling of products. Table 18 below gives a summary of the responses from the sample.

Table 18: Sourcing economies

Rating	Frequency	%
Extremely important	4	15%
Somewhat important	6	22%
Neither important nor unimportant	6	22
Fairly important	4	15%
Not important at all	7	26
Total	27	100%

Source: research data

15% of respondents considered sourcing economies as a major factor in their bid to operate globally by rating it as extremely important, while 22% take it as a somewhat important factor. A further 22% considered it to be neither important nor unimportant, while 15% considered it to be fairly unimportant. However, the largest proportion (26%) did not consider it to be important at all.

With the entry of foreign firms in the Kenyan market, prices of local products became competitive. Prices of local inputs were lowered either through negotiations or voluntarily by the manufacturers. To achieve price reductions, the manufacturers reduced their production costs. This was done through sourcing of non-core activities from other suppliers while placing more focus on the core activities of the firm.

Competitive pricing was also achieved through global sourcing, increased automation, work measurement and standardization of operations (Table 18).

Table 19: Overcome trade barriers

Rating	Frequency	%
Extremely important	2	7%
Somewhat important	3	11%
Neither important nor unimportant	7	26%
Fairly important	10	37%
Not important at all	5	19%
Total	27	100%

Source: research data

Only 7% of the local firms consider global operations as extremely important for them to overcome trade barriers and trade on foreign markets, 11% rate overcoming trade barriers as somewhat important while 26% rate it as neither important nor unimportant. The highest number rated it as fairly unimportant at 37% and a significant proportion (19%) felt that it was not important at all. These results show that firms in Kenya do not consider overcoming trade barriers as a strong reason for globalization. This may be because most of the trade partners belong to the COMESA market and other markets where Kenya is already enjoying preferential treatment such as the North American market where the AGOA agreement is operative (Table 19).

Table 20: Management enthusiasm

Rating	Frequency	%
Somewhat important	3	11%
Neither important nor unimportant	7	26%
Fairly important	8	30%
Not important at all	9	33%
Total	27	100%

Source: research data

None of the respondents considered management enthusiasm as an extremely important factor in globalization of Kenyan firms; however 11% felt that it was somewhat important. On the other hand 33% contended that it was not at all important and 30% found it to be fairly unimportant. The remaining 26% neither found it to be important nor unimportant (Table 20).

This means that the drivers for globalization in Kenya did not originate from the managers' innovative ideas, but from the circumstances that surrounded the environment in which the firms were operating. The liberalization of the economy and the other factors that have been identified in this section seem to have played a more crucial role in the decision to globalize by local firms.

4.5 Factors that Facilitate Globalisation of Operations

Other than reasons, there also exist factors that facilitate the adoption of the practice of globalization. The firms in the sample were asked to rate certain factors as to their level of importance. These results are presented and discussed in the following section and summarized in Table 21 to 27

Table 21: Accessible information on global opportunities

Rating	Frequency	%
Extremely important	16	59%
Somewhat important	8	30%
Neither important nor unimportant	3	11%
Total	27	100%

Source: research data

On accessibility of information on global opportunities, 59% of the respondents confirmed that they improved this is an extremely important factor for a firm aspiring or already operating globally. 30% found it to be somewhat important hence bringing those who thought to have at least some importance to 89%. This is a very high proportion hence it could be viewed as one of the major factors facilitating globalization. The remaining 11% were undecided whether it was important or not. Most firms highlighted the need for integrated computer information systems designed to provide timely (online) and accurate information to management.

Information on global opportunities includes:

- Estimation of current market potential. This involves looking at the population size and the per capita incomes of the population. Forecast of future market potential.
- Forecast market share. This is an estimate of the proportion of the market potential that the firm is capable of securing.
- Forecast of costs and profits.

This information is available at Commercial attaches for various nations, Ministry of Trade and industry and at trade fairs and exhibitions, United Nations Publications, foreign government reports as well as bank reports

Table 22: Foreign currency deregulation

Rating	Frequency	%
Extremely important	**15**	**56%**
Somewhat important	**7**	**26%**
Neither important nor unimportant	**2**	**7%**
Fairly unimportant	**3**	**11%**
Total	**27**	**100%**

Source: research data

Foreign currency deregulation was rated as extremely important by 56% of the respondents. 26% rated the factor as somewhat important while 7% were indifferent. Only 11% rated them as fairly unimportant. This is indicative that firms find this a factor that facilitates the entry into other markets and exporting.

Table 23: Presence of regional trading blocks

Rating	Frequency	%
Extremely important	**10**	**37%**
Somewhat important	**5**	**19%**
Neither important nor unimportant	**7**	**26%**
Fairly important	**3**	**11%**
Not important at all	**2**	**7%**
Total	**27**	**100%**

Source: research data

56% of the respondents rated the presence of regional trading blocks as important for the globalization of local firms. This constituted of 37% rating it extremely important and 19% somewhat important. 26% were indifferent and the remainder considered it either fairly unimportant or not important at all.

The presence of COMESA and the East Africa Community now present expansive business opportunities for the local manufacturing firms. The firms in Kenya appear to have recognized these opportunities and are exploiting them hence they hold them to be very important. However there still exist more opportunities that firms in Kenya can exploit.

Table 24: Political factors

Rating	Frequency	%
Extremely important	19	70%
Somewhat important	8	30%
Total	27	100%

Source: research data.

Political factors were considered extremely important by 70% of the respondents in globalization while the rest considered them to be somewhat important. This indicates that political factors play a key role in the decision to globalize by firms in Kenya. This is fuelled by the various internal wrangles in many neighbouring countries such as Somalia, Uganda, Democratic Republic of Congo and so on and their effect on private business. In most cases, firms find it prudent to operate in a politically stable environment.

The general election cast a shadow on the local manufacturing firms since most large organization on which the local firms depend for input or market adapted a wait and see attitude which in turn slowed down the business cycle for the local manufacturers. On the other hand, most of the local firms that are registered in Kenya but owned by nationals of other countries were operating minimally as the business proprietors repatriated their funds to their home countries due to the uncertainty of the outcome of the general elections.

Table 25: Economic considerations

Rating	Frequency	%
Extremely important	11	41%
Somewhat important	7	26%
Neither important nor unimportant	6	22%
Fairly unimportant	3	11%
Total	27	100%

Source: research data

Only 11% of the respondents considered economic considerations to be unimportant to some degree, the rest were either undecided (22%) or they considered it important to a certain extent (67%). The 67% who considered it important to some degree were composed of 41% who considered it extremely important and 26% who considered it somewhat important as a facilitator for globalizing. This is mainly due to the fact that the manufacturers are profit driven.

The findings indicate that since Kenya is a country with low per capital income due to high unemployment and dependency burden, there is relatively how demand for industrial products as compared to the developed countries. Global operations therefore provide the local manufacturers with an opportunity to market their products in different economic conditions as they operate in other countries.

Table 26: Social considerations

Rating	Frequency	%
Extremely important	4	15%
Somewhat important	2	7%
Neither important nor unimportant	6	22%
Fairly important	7	26%
Not important at all	8	30%
Total	27	100%

Source: research data

15% of the respondents consider social considerations as extremely important while 7% consider them somewhat important. Most of the respondents thought that the social considerations were not important at all (30%) while 26% thought they were fairly unimportant. The rest felt that they were neither important nor unimportant.

Those who felt social considerations were important singled out the HIV –AIDS epidemic that affects manufacturers adversely in that attrition of the work force is now accelerated and the market in Kenya is rapidly reducing. Also differences in material culture of the target market were seen to call for product adaptation. However, where the local manufacturing firms are trading with foreign markets that are psychologically close then the global operations are simplified as this calls for less adaptation.

Table 27: Availability and accessibility of capital

Rating	Frequency	%
Extremely important	14	41%
Somewhat important	6	22%
Neither important nor unimportant	4	15%
Fairly unimportant	4	15%
Not important at all	2	7%
Total	27	100%

Source: research data

This indicates that availability of capital is crucial for a firm to extend its operations to global markets. The table shows that about 41 % of the respondent firms consider the availability of capital to be an extremely important factor in the globalization of the firm. Coupled with the 22% who hold it to be somewhat important, this makes it one of the major factors at a total %age of 63%. There are those who do not hold as very important 15% and those who hold it to be not important at all 7%. This may be because in some countries the capital availability is not an issue as one can get capital from many sources at a very low cost. For instance the western countries have interest rates that are as much as 15% of the prevailing rates in Kenya.

4.6 Factors that constrain Globalisation of Operations

The research looked at the various factors that may be constraining the globalization of local firms. The respondents were asked to rate the level of importance they attach various factors. The tables 28 – 34 indicate the results of the study on constraints.

Table 28: Lack of reliable data on global opportunities

Rating	Frequency	%
Extremely important	2	7%
Somewhat important	4	15%
Neither important nor unimportant	5	19%
Fairly unimportant	7	26%
Not important at all	9	33%
Total	27	100%

Source: research data

Table 28 above indicates that firms that were sampled did not consider lack of information of opportunities to be a very significant factor in globalization. This may be because the information is readily available and can be checked hence is highly reliable. A total of 59% did not consider it so important with 24% contending it is fairly unimportant and 33% viewing it as not important at all. In fact, only 24% of the firms considered it to have at least some importance. This is in tune with the contentions that they considered they had access to the necessary information of opportunities abroad as indicated in the facilitators of globalization.

Table 29: Company orientation

Rating	Frequency	%
Extremely important	7	26%
Somewhat important	4	15%
Neither important nor unimportant	9	33%
Fairly important	5	19%
Not important at all	2	7%
Total	27	100%

Source: research data

Most of the respondents were indifferent as to the effect of company orientation on globalization (33%). Those who felt it had some importance were 41%, 26% of whom thought it was extremely important and 15% who felt it to be somewhat important. On the other hand, 19% found it to be fairly unimportant and 7% thought it was not important at all. This means that it is not a very strong constraint though firms seem to favour it as a factor that restricts globalization (Table 29).

This was mainly in the firms that were owned by families and the firms are set up specifically to target the local market. These firms became more lean and flexible in order to cope with changing market trends. There was more control of resources with close supervision of fewer employees who were better remunerated than before. There was emphasis on waste elimination covering all activities, which included elimination of absenteeism, materials and energy.

Table 30: Corporate reputation and image

Rating	Frequency	%
Extremely important	8	30%
Somewhat important	4	15%
Neither important nor unimportant	2	7%
Fairly important	6	22%
Not important at all	7	26%
Total	27	100%

Source: research data

30% rated firms' reputation as extremely important and 15% as somewhat important. 7% did not view it as important nor did they view it as unimportant. On the other hand, 22% considered it fairly unimportant and 26% considered it not important at all. This does not give a clear-cut leaning to one side; however the image of this sector can be improved further amongst consumers, the government and the general public. This can be done through highlighting of benefits the industry brings to the country. Participation in social activities is yet another way of cultivating good relations (Table 30).

Table 31: Political factors

Rating	Frequency	%
Extremely important	16	59%
Somewhat important	7	26%
Neither important nor unimportant	3	11%
Fairly important	1	4%
Total	27	100%

Source: research data

59% of the respondents viewed political factors as extremely important while 26% viewed them as somewhat important. 11% were undecided while 7% found it to be fairly unimportant. None of the respondents thought political considerations to have absolutely no importance as a constraint to globalization. Instability in such things as leadership and the related policies in relation to export support and systems are very important considerations. The general election cast a shadow on the local manufacturing firms since most large organization on which the local firms depend for input or market adopted a wait and see attitude which in turn slowed down the business cycle for the local manufacturers. On the other hand, most of the local firms that are registered in Kenya but owned by nationals of other countries were operating minimally as the business proprietors were repatriating their funds to their home countries due to the uncertainty of the outcome of the general elections (Table 31).

Table 32: Trade barriers

Rating	Frequency	%
Extremely important	14	52%
Somewhat important	6	22%
Neither important nor unimportant	4	15%
Fairly unimportant	2	7%
Not important at all	1	4%
Total	27	100%

Source: research data

52% of the respondent rated this as extremely important, 22% rated it as somewhat important. 15% were undecided and only 11% did consider it important by some degree. Of these 11%, 7% felt it was fairly unimportant while 4% considered it not important at all (Table 32).

Firms have had problems exporting to some markets due to the preference that other countries are given in some markets. The WTO agreements have a great impact on trade in the world. Trading blocks such as the EU do not allow free trade with other countries outside the blocks. African firms have little or no bargaining power. For instance to sell commodities to the North American market there are quotas imposed to regulate the quantities of particular products.

Table 33: Government regulations

Rating	Frequency	%
Extremely important	20	74%
Somewhat important	5	19%
Neither important nor unimportant	2	7%
Total	27	100%

Source: research data

74% of the respondents observed that government regulations are of absolute importance while 19% rated this as somewhat important, the rest of the respondents were undecided (Table 33).

These findings indicate that government regulations are considered so important that they determine the survival or collapse of any industry. For instance in order to benefit from COMESA duty rates, local manufacturing needs to be encouraged and government regulations play a key role in encouraging by use of tax incentives and infrastructure support.

The respondents indicated the need for the manufacturing industry in Kenya to work closely with the government and other stakeholders in formulating and implementing regulations that will govern their industry and support development of exports instead of constraining them.

Table 34: Level of control of foreign markets

Rating	Frequency	%
Extremely important	2	7%
Somewhat important	4	15%
Neither important nor unimportant	6	22
Fairly important	8	30%
Not important at all	7	26
Total	26	100%

Source: research data

Most of the respondents did not consider this an important factor with 30% rating it as fairly unimportant and 26% reckoning it is not important at all. Of the remaining 22% were noncommittal, 15% rated it as somewhat important and 7% felt that it was extremely important (Table 34).

Foreign market entry requirements in many cases are not favourable to the local manufacturing firm penetrating the global market.

The control that firms encounter include but are not limited to

- Extremely high registration fees
- Excessive bureaucracy in obtaining permits
- Mandatory joint ventures with local firms in the host country
- requirement to employ higher number of native employees that those from the firms parent company

In the course of the gradual dismantling of tariffs and increased economic integration, non-tariff barriers to trade and competition have became relatively more important. Antidumping and countervailing duty actions have turned into preferred means to impose restrictions on international trade, replacing existing limitations and /or creating additional obstacles. Contrary to their design as temporary means to offset unfair competitions, these trade defence measures are in practice used as a long-term remedy for various economic difficulties.

Chapter 5 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

With the developments in transport and communication technology, the world is fast appearing smaller and trade opportunities are more and more becoming available in disparate areas of the world. This study, established that Kenyan local firms are not being left behind in the clamour for firms to expand their horizons. The research found that most local manufacturing firms based in Nairobi are at the second stage of globalization based on the four-stage Uppsala School Model. This is the stage of exporting through overseas agents.

The study found that the reasons that the firms find most important in the adoption of globalization policies are to exploit foreign market opportunities, the presence of more competitors in Kenya leading to saturation of the market in Kenya. They are also keen to utilize synergies possible by exploiting the economies of scale arising from higher production capacities as well as exploiting excess capacity. Other important factors are to extend the product life cycle and take advantage of tax benefits.

The study found the following to be the facilitators of globalization for Kenyan firms were the political factors in Kenya, accessibility of information on foreign markets and investment opportunities, foreign currency deregulation as well as the current regional trading blocks. Others are economic considerations and the availability and accessibility of capital.

On the other hand several constraints were identified as hindering the practice of globalization. These include the political factors affecting neighbouring countries, government regulations and the trade barriers facing Kenyan firms wanting to export goods to foreign markets.

5.2 Recommendations

In order to benefit from COMESA duty rates, local manufacturers need to be encouraged to participate in regional and global trade. The presence of COMESA and East Africa Community now present expansive business opportunities for the local manufacturing firms. In order to grow, the industry must continue to focus on developing its export business to the regional market.

Firms should also take positive actions in order to improve their corporate reputation and image so as to enhance their profitability and competitiveness. These actions include:

- Having strategic plans on Public relations and social welfare activities
- Using more automation where appropriate.
- Efficiency improvement e.g. introducing work measurement, standardizing of operations, reduction of raw material wastage, tighter control of expenditure. Firms also seek to get ISO 9002 certification.
- Improved quality of products.

Kenyan firms should also lobby to have trade barriers and agreements that are unfavourable to their expansion to foreign markets removed or relaxed to give them a better chance for expanding and moving to the other stages of the model.

5.3 Limitations of the study

This study had several limitations. It was difficult to get a comprehensive list of the totality of firms that exist in Kenya. The directory that was used is a membership directory and not all manufacturing firms are listed in the directory.

The limitations of time and money allowed only firms that are based in Nairobi to be included in the study.

5.4 Suggestions for future research

Future research in this area could be conducted on all manufacturing firms in Kenya. The companies to be involved in the study should not be limited to those firms that are registered with the Kenya Association of Manufacturers.

The study based its findings on the Uppsala model; other studies based on other models could be conducted to ascertain whether the Kenyan scenario could be explained using these models and whether firms could adopt them for better results.

The study may also be extended to other local firms that offer support services to the local manufacturing firms in Kenya such as firms involved in logistics, those offering financial services and so on.

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APPENDIX 1 A letter of Introduction to respondents.

Pauline Wambui Mwangi,

P.O. Box 28516,00200,

Nairobi.

Attention: **General Manager**

<Name Of Firm>

<Postal Address>

<City>

Dear Sir/ Madam

I am a student in the faculty of Commerce university of Nairobi. In partial fulfillment of the requirements of the master of Business Administration (MBA) degree, I am conducting a survey that will focus on firms within Nairobi entitled: **A SURVEY OF THE EXTENT OF GLOBAL OPERATIONS OF LOCAL MANUFACTURING FIRMS IN NAIROBI.**

Your firm has been selected to form part of this study. To this end I kindly request for your assistance in completing this questionnaire. Any additional information you might find necessary to for this study is welcome.

The information and data required is needed for academic purposes only and will be treated in strict confidence.

Your cooperation will be highly appreciated.

Thank you.

Yours sincerely,

Pauline Wambui Mwangi

MBA student

Jackson Maalu

Supervisor

APPENDIX 2 Questionnaire

Please answer the following questions by ticking where applicable or filling in the blanks

SECTION A

1. Name of your firm ______________________

2. What is the ownership of your firm? (family, partnership etc)______________

____

3. Year of establishment of your firm______________________

4. How many employees do you have in your firm ______________

5. State your firm's core business______________________

6. What global operation are you involved in? Tick where appropriate

   a) Selling on domestic market with no interest in foreign markets ☐

   b) Produce locally and the overseas seller collect the goods from your premises. ☐

   c) Selling on the domestic market and searching for information and evaluates the feasibility of undertaking exporting. ☐

   d) Licensing foreign firms to produce in their market on your behalf. ☐

   e) Franchising assistance to foreign firms o produce in their market on your behalf. ☐

   f) International subcontracting to foreign firms to produce in their market. ☐

   g) Joint ventures foreign firms ☐

   h) Strategic alliances ☐

   i) Any other method. Please specify______________________

7. If you export please state the country(y) ies to which you export.

____

SECTION B

Rate the level of importance you attach to globalization using the following Likert scale

5. Extremely important

4. Somewhat important

3. Neither important nor unimportant

2. Fairly important

1. Not important at all

(Kindly circle one of the numbers)

Market saturation at home	1	2	3	4	5
Exploit excess capacity	1	2	3	4	5
Economies of scale	1	2	3	4	5
Oligopolistic reaction	1	2	3	4	5
Extend the product life cycle	1	2	3	4	5
Tax benefits	1	2	3	4	5
Risk diversification	1	2	3	4	5
Dumping	1	2	3	4	5
Exploit foreign market opportunities	1	2	3	4	5
Stabilization of demand	1	2	3	4	5
Presence in competitors home market	1	2	3	4	5
Sourcing economics	1	2	3	4	5
Overcome trade barriers	1	2	3	4	5
Management enthusiasm	1	2	3	4	5

Any other factors____

SECTION C

Rate the level of importance you attach to the following factors that facilitates your firms global operations using the following Likert scale

5. **Extremely important**
4. **Somewhat important**
3. **Neither important nor unimportant**
2. **Fairly important**
1. **Not important at all**

Accessible information on global opportunities 1 2 3 4 5

Explain:____

____

Foreign currency deregulation 1 2 3 4 5

Explain:____

____

Presence of regional trading blocks 1 2 3 4 5

Explain:____

____

Political factors 1 2 3 4 5

Explain:____

____

Economic considerations 1 2 3 4 5

Explain:____

____

Social considerations 1 2 3 4 5

Explain:____

____

Availability and accessibility of capital 1 2 3 4 5

Explain:____

____

SECTION D

Rate the level of importance you attach to the following factors that constrain your firm's global operations using the following Likert scale

5. **Extremely important**
4. **Somewhat important**
3. **Neither important nor unimportant**
2. **Fairly important**
1. **Not important at all**

Lack of reliable data on global opportunities 1 2 3 4 5

Explain:____

____

Company orientation 1 2 3 4 5

Explain:____

____

Corporate reputation and image 1 2 3 4 5

Explain:____

____

Political factors 1 2 3 4 5

Explain:____

____

Trade barriers 1 2 3 4 5

Explain:____

____

Government regulations 1 2 3 4 5

Explain:____

____

Level of control of foreign markets 1 2 3 4 5

Explain:____

____

LIST OF INDIGENOUS KENYAN MANUFACTURERS REGISTERED WITH KAM

1. Afrolite Industries Ltd
2. Alloy Steel Castings Ltd
3. Allpack Industries Ltd
4. Alpha knits Ltd
5. Alpha Medical Manufacturer Ltd
6. Associated Battery Manufacturers Ltd
7. Associated Steel Ltd
8. Associated Paper & Stationery Ltd
9. Auto Ancillaries Ltd
10. Auto Spring Manufacture Ltd
11. Automotive & Industrial Battery Manufacturers
12. Bamburi Cement Ltd
13. Bata Shoe Company of (K) Ltd
14. Baumann Engineering Ltd
15. Bidco Oil Refineries
16. Bio Food Products Ltd
17. Blanket Industries Ltd
18. Bobmil Industries Ltd
19. BOC (K) Ltd
20. Bonar (E.A) Ltd
21. Broadway Bakery Ltd
22. Bulleys Tanneries Ltd
23. C & P Shoe Industries
24. Carnaud Metal Box (K) Ltd
25. Central Glass Industries Ltd
26. Chandaria Industries Ltd
27. Chemelil Sugar Co. Ld
28. Choda Fabricators Ltd
29. City Engineering Works (K) Ltd
30. City Radiators Limited
31. Colour Labels Ltd
32. Colour Packaging Ltd
33. Colour print Ltd
34. Comet Plastics Ltd
35. Complast Industries Ltd
36. Cooper (K) Ltd
37. Corrugated Sheets Ltd
38. Cosmos Ltd
39. CPC (K) Ltd
40. CPC Industrial Products Ltd
41. Crown Cork E.A Ltd
42. Crown Foods Ltd
43. Dodhia Packaging Ltd
44. Doshi Enterprises Ltd
45. E.A. Foundry Works (K) Ltd
46. E. A. Packaging Industries Ltd
47. E. A. Portland Cement Co. Ltd
48. East Africa Cables Ltd
49. East Africa Spectre Ltd
50. Envelope Manufacturing Ltd
51. Eslon Plastics of Kenya Ltd
52. Eveready Batteries (K) Ltd
53. Farmer's Choice Ltd
54. Firestone (E.A) 1969 Ltd
55. Foam Mattress LTD

56. Galaxy Pints Kenya Ltd
57. General Plastics Ltd
58. General Printers Ltd
59. Gohil Soap Factory Ltd
60. Green Fields Investments Ltd
61. Haco Industries (K) Ltd
62. Henkel Kenya Ltd
63. Hercules Mills Ltd
64. Highlands Canners Ltd
65. Highlands Mineral Water Co. Ltd
66. Highlands Paper Mills Ltd
67. Hobra Manufacturers Ltd
68. Holman Brother (E.A) Ltd
69. Homa Lime Co. Ltd
70. Impala Glass Industries Ltd
71. International Distillers (K) Ltd
72. Jambo Biscuits Ltd
73. Kabasorra Ltd
74. Kabazi Canners LTD
75. Kaluworks Ltd
76. Kaluworks Ltd (Aluminum Div)
77. Kam Industries Ltd
78. Kamba Manufacturing (1986) Ltd
79. Kamp Lighting (1978) Ltd
80. Kamyn Industries Ltd
81. Kapa Oil Refineries Ltd
82. Karimbhai & Qurbanlite Ltd
83. Kel Chemicals Ltd
84. Ken-Knit 9K) Ltd
85. Kenafric Industries Ltd
86. Kenapen Industries Ltd
87. Kenblest Ltd
88. Kenabro Industries Ltd
89. Keninida Assurance Co.
90. Kenpoly Manufacturers Ltd
91. Kens Metal Industries Ltd
92. Kensta (Kenya Stationers) Ltd
93. Kentainers Ltd
94. Kenwestfal Works Ltd
95. Kenya Breweries Ltd
96. Kenya Builders & Concrete Ltd
97. Kenya Calcium Products Ltd
98. Kenya Fishnet Industries Ltd
99. Kenya General Industries Ltd
100. Kenya Grange Vehicle Industries Ltd
101. Kenya Litho Ltd
102. Kenya Matches Ltd
103. Kenya Nut Co. Ltd
104. Kenya Petroleum Refineries Ltd
105. Kenya Ports Authority
106. Kenya Power lighting Co. Ltd
107. Kenya Scale Co. Ltd
108. Kenya Sweets Ltd
109. Kenya Shirts Manufacturers Co. Ltd
110. Kenya Tanning Extract Co. Ltd
111. Kenya Tea Packers Ltd
112. Kenya United Steel Co. Ltd
113. Kenya Wine Agencies Ltd
114. Kenya Wood Ltd
115. Kifaru Textile Mills Ltd
116. Kisii Bottlers Ltd
117. Kisumu Banco Manufactures Ltd

118. Kuguru Good Ltd
119. Labh Singh Harnam Singh Ltd
120. Laboratory & Allied Ltd
121. Lake Printers & Stationers Ltd
122. Leather Industries (K) Ltd
123. Londra Ltd
124. Mabati Rolling Mills Ltd
125. Mac's Pharmaceuticals Ltd
126. Mafuko Industries Ltd
127. Magadi Soda Co. Ltd
128. Mastermind Tobbaco (K) Ltd
129. Mecol Ltd
130. Mega Spin Ltd
131. Mehta Sons Africa Ltd
132. Menengai Oil Refineries Ltd
133. Menengai Soap Factory Ltd
134. Metoxide Africa Ltd
135. Metro Plastic Kenya Ltd
136. Mombasa Salt Works Ltd
137. Mombasa Towel Manufactures
138. Moon Industries Ltd
139. Mount Kenya Textiles Ltd
140. Muhoronoi Sugar Co. Ltd
141. Mumias Sugar Co. Ltd
142. Munshiram Inter. Business Machines
143. Nairobi Floor Mills Ltd
144. Nakuru Fibers Ltd
145. Nakuru Flour Mills Ltd
146. Nakuru Industries Ltd
147. Nakuru Tanneries Ltd
148. National Concrete Co. Ltd
149. National Printing Press Ltd
150. Ndume Ltd
151. Nestle Foods Kenya Ltd
152. Njoro Canning Factory (K) Ltd
153. Novelty Manufacturing Ltd
154. Nutro Manufacturing Ltd
155. Oasis Ltd
156. Orbit Chemical Industries Ltd
157. Orbit Enterprises Ltd
158. Packaging Africa Ltd
159. Packaging Industries Ltd
160. Packwell Industries Ltd
161. Panafrican Paper Mills (E.A) Ltd
162. Paper Converters (K) Ltd
163. Paper bags Ltd
164. Patco Industries Ltd
165. Pelican Signs Ltd
166. Pembe Flour Mills Ltd
167. Polythene Industries Ltd
168. Power Technics Ltd
169. Premier Bag & Cordage Ltd
170. Prestige Packaging Ltd
171. Printing Industries Ltd
172. Printpack Multi Packaging Ltd
173. Pyramid Packaging Ltd
174. Rafiki Millers Ltd
175. Regal Pharmaceuticals Ltd
176. Rolmil Kenya Ltd
177. Rosewood Design Ltd
178. Rosin (K) Ltd
179. Rubi Plastics industries Ltd
180. Sadolin Piants (EA) Ltd
181. Saj Ceramics Ltd

182. Salt Manufactures (K) Ltd
183. Sandvik Kenya Ltd
184. Sanpack Ltd
185. Santowels Ltd
186. Shanti Perfumery Works Ltd
187. Shell Development (K) Ltd
188. Signode Packaging systems Ltd
189. Simbarite Ltd
190. Slumberland Kenya Ltd
191. Soilex Chemicals Ltd
192. Sollatek Electronics Kenya LTD
193. Spin Knot Ltd
194. Spinnners & Spinners Ltd
195. Stainless Steel Products Ltd
196. Stamet Products Ltd
197. Starex Fasteners Manufactures
198. Standard Rolling Ltd
199. Steel Structees Ltd
200. Steel makers Ltd
201. Steelwoool Africa Ltd
202. Sterling Craft Kenya Ltd
203. Sunflag Textiles & Knitwear Ltd
204. Super Bakery Ltd
205. Super Foam Ltd
206. Super Manufactures Ltd
207. Swan Industries Ltd
208. Swan Millers Ltd
209. Synresins Ltd
210. Tarpo Industries Ltd
211. Timsales Ltd
212. Tononoka Steels Ltd
213. Treadsetters Tyres Ltd
214. Trufoodss Ltd
215. Twiga Chemical Industries
216. Unga Group Ltd
217. Uni-Plastics Ltd
218. United Millers Ltd
219. Virani curry powder & Flour Mils
220. Vitafoam Products Ltd
221. Warren Enterprises Ltd
222. Wyco Paints Ltd