

**STRATEGIES ADOPTED BY SMALL AND MEDIUM
ENTERPRISES IN KENYA TO COPE WITH FOREIGN
MARKET CHALLENGES**

BY

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIRMENTS FOR THE AWARD OF THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF
BUSINESS, UNIVERSITY OF NAIROBI**

OCTOBER 2013

DECLARATION

This thesis is my original work and has not been presented to any other university for the award of a degree.

Sign..... Date.....

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Reg. No.: D61/63392/2011

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

Sign..... Date.....

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DEDICATION

I dedicate this thesis to my mother Mrs. Clemencia Onyancha, My husband Victor Mwangu, to my son Ayden Mwangu and to my sister and brothers for their love, encouragement, prayers and support during the entire period of the study.

ACKNOWLEDGEMENT

I would like to send my gratitude and thanks to the people who supported and encouraged me and made possible the successful completion of my master's project.

First, I would like to express my deepest gratitude to my supervisor Prof. Martin Ogutu for the guidance, valuable comments and support. He has provided with guidance and support from initiating the project until the completion of the project. During this time, I have learned through productive comments of my supervisor.

In addition, I really appreciate and express my gratitude to the Managers of the selected SMEs for their support, information and valuable time to go through and answer the questionnaire which made it possible to meet the research objectives.

Finally, I would like to thank my family that is my mother Clemencia Onyancha for her encouragement, support and prayers, my husband Victor Mwangi for his support and being there for me throughout this period, my son Ayden Patrice Mwangi for his provocative smile while I tried to concentrate and for my friends for their encouragement and motivational support throughout the study.

ABSTRACT

This master dissertation focuses on the challenges faced by small and medium enterprises while accessing international markets and the appropriate strategies adopted to cope with these challenges. Particularly it focuses on challenges from the management point of view focusing on exporting SMEs that already have firms in international markets. The study seeks to find out about the major challenges facing them and those firms that have overcome these challenges how they did overcome by finding out what strategies were adopted or what measures were taken so as to avoid facing such challenges in future. Challenges faced by SMEs when starting to venture into the international markets are more in developing countries where they face challenges face due to the less educated managerial staff for strategic formation and external support for internationalization process. Further, the growth of SMEs in any country also depends upon the availability of resources and support of external organizations. SMEs are not big enough like large organizations, nor do they have enough resources to survive in the international market. In developing countries, SMEs face more challenges because of less availability of resources and external support for their internationalization process. At the initial stage, SMEs need more financial resources to make investment in capital-intensive projects and educated management for strategic formation. They require financial resources on low interest rates and guidance to find representatives in the international market. The external organizations in both markets should support SMEs to meet challenges in the foreign markets and how to cope with the challenges.

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LIST OF ABBREVIATIONS

CET -	Common External Tariff
COMESA -	Common Market for Eastern and Southern Africa
FDI -	Foreign Direct Investment
FKE -	Federation of Kenya Employers
GATT -	General Agreement on Tariffs and Trade
GDP -	Gross Domestic Product
ICT -	Information and Communication Technology
ISI -	Import Substitution Industrialization
KAM -	Kenya Association of Manufacturers
SMEs -	Small and Medium Enterprises
NTB -	Non-Tariff Barriers
PBGs -	Producer Business Groups
RTA -	Regional Trade Arrangements
TREO -	The Trade Remission Exports Office
UNCTAD -	United Nations Conference on Trade and Development
WTO -	World Trade Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Access to and maintenance of foreign markets and addressing challenges faced in foreign markets among small and medium-sized enterprises (SMEs) is a topic of considerable relevance. The foreign market accessibility process by firms has been studied extensively. However, an area, which has obtained fairly limited attention, is the strategy of coping with foreign market challenges by small and medium sized enterprises (SMEs) in Kenya. These firms are affected by the globalization of the markets, forcing the firms to act and think more globally which aims to earning foreign exchange and enhancing firm growth. Poor strategies of coping up with foreign markets can undermine the microeconomic fundamentals of the SME sector, resulting in lower growth in income and employment (Griliches, 1998).

The study shall be premised by the theory of market imperfection where imperfection of markets can be viewed as anything that interferes with trade. There are two dimensions of imperfection. First, imperfections cause a rational market participant to deviate from holding the market portfolio. Second, imperfections cause a rational market participant to deviate from his preferred risk level. Market imperfections generate costs which interfere with trades that rational individuals make.

This study comes at a time when regional economic groups are at the verge of establishing closer trade links by removing trade barriers and encouraging trade across borders. SMEs in the current trade environment are becoming increasingly exposed to globalization of industry, open regionalism, multilateralism and shifting in the sources of competitiveness at a time when their economic structures are still under developed. This study will unravel the challenges that pose to the opportunities that underlie the opportunities available for SMEs in the global arena.

1.1.1 Concept of Strategy

In management, strategy is defined as a unified, comprehensive and integrated plan designed to ensure that basic objectives of the enterprise are achieved. The company that is strategically positioned performs different activities from rivals or performs similar activities in different ways". According to Glueck, "Strategy is the unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment and is designed to ensure that basic objectives of the enterprise are achieved through proper implementation process". Woods and Joyce (2003) depict strategy as a set of beliefs on how a firm can achieve success. They affirm that strategy is the main route to attain corporate goals and an objective, leading to enhanced long-term performance meaning that strategy is much more than beliefs and encompasses a deliberate search for a plan of action that will develop a business's competitive advantage and compound it.

This study shall rely on strategy as a perspective which looks inside the organization. In this regard strategy has a content consisting of an ingrained way of perceiving the world. For instance some organizations are aggressive pacesetters, creating new technologies and exploiting new markets; others perceive the world as set and stable and so sit back in long established markets and build protective shells around themselves relying more on political influence than economic efficiency (Packard, 1999).

1.1.2 Foreign Market Challenges

SMEs go through a learning process when they engage in international activities. This process can be shaped by the size and the industrial sector of the firm. Each step of this learning process presents special challenges for SMEs. The set of firms that are not yet active exporters often underestimate the barriers present in the external business environment, such as those associated with financial matters and access to markets. Firms may also lack awareness of how their capabilities match the challenges of operating in international markets. The purchasing power of consumers and businesses in these foreign markets is significant enough for Kenyan firms to want to compete in those markets. However, international markets are not without pitfalls, and many companies have made costly mistakes by not adequately researching international markets before they commit resources there.

Some of the challenges firms face in international markets includes Identifying a True Market Need which is key to success in business by offering products and services for

which customers have a compelling need. Another challenge involves dilution of Brand-Name Power due to the Internet, tourism, cultural exposure and international linkages. Being aware of a brand name is not the same as preferring it. It can be a long and expensive process to gain the trust of consumers who have used their own local products for years or even generations. Cultural Nuance is also another challenge whereby Consumers are influenced to purchase products by marketing messages delivered through the media, including print media such as magazines. The communication Style is also important as business executives from different countries can encounter language barriers. Lastly, distance and time also be a major challenge to firms penetrating foreign markets. Even with technologies such as video conferencing, executives in other countries may prefer to establish relationships on a personal level.

1.1.3 Small and Medium Enterprises in Kenya

Small and medium enterprises are companies whose personnel numbers fall below certain limits. The Small enterprises outnumber large companies by a wide margin and also employ many more people. SMEs are also said to be responsible for driving innovation and competition in many economic sectors. The sector also plays a key role in employment creation, income generation and is the bedrock for industrializing the Country in the near future.

It is estimated that there are 7.5 million SMEs in Kenya, providing employment and income generation opportunities to low income sectors of the economy. The Sector has continued to play an important role in the economy of this country. The sector's

contribution to the Gross Domestic Product (GDP) has increased from 13.8 per cent in 1993 to about 40 per cent in 2008. The Small Enterprise Sector or Informal Sector provided approximately 80% of total employment and contributed over 92% of the new jobs created in 2008 according to the Economic Survey of 2009. SMEs are significant contributors to the global economy accounting for approximately 50% of local National GDP, 30% of export and 10% of FDI. While it is not possible to accurately quantify the number of SMEs currently involved in international markets it appears to be increasing, particularly for SMEs in the service sector. The opportunities for international business dealings have grown dramatically as the traditional barriers associated with distance and cross-border transactions have been reduced through new technology and trade negotiations. But the development of a fast-changing and increasingly complex global marketplace has also placed considerable pressures on firms, particularly SMEs.

Due to their characteristics, SMEs in Kenya suffer from constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale. The challenges are not only in the areas of financing investment and working capital, but also in human resource development, market access, and access to modern technology and information. Firms that enter the international market will survive depending on the strategies that they will adopt to cope with these challenges. It is estimated that $\frac{1}{4}$ of the SMEs in Kenya engage in foreign trade and have access to foreign market.

1.2 Research Problem

SMEs face a lot of challenges while trying to access foreign markets. Some of these challenges include problems pertaining to meeting importer quality standards and establishing the suitable design and image for the export market (Czinkota and Rocks, 1983; Kaynak and Kothatri, 1984; Rabino, 1979). There are also problems related to the poor organization of export departments and the firm's lack of competent personnel to administer exporting activities (Yanget al., 1992). Another challenge is the inability to finance exports, insufficient information about overseas markets among other problems of organizational and environmental concern (Urata, 2000).

According to Rocks (1983) most SMEs in Kenya that have tried to expand to foreign markets have not been successful and have not done so well due to these challenges. Juan (1989) argues that, most firms accessing international markets do so without doing proper research on the challenges in those markets leading to failure. However as stated by Lall (1991) if they adopt appropriate strategies to cope with this challenges then they will do well and succeed in the foreign markets.

Several studies have been carried out on challenges in the foreign market and SMEs foreign market entry strategies. McDermott, M. (2009) conducted a study on competing in foreign markets. Dr. Ouma (2004) conducted a study on access to finance by Small and Medium Enterprises to undertake productive investments to expand their businesses globally. Yin (2007) conducted a study on SME entry strategies to foreign markets. However, although many studies have been conducted in regard to SMEs expansionist

strategies, no study has been done on strategies adopted by SMEs to cope with these foreign market challenges.

This study seeks to fill the existing gap in the area of strategies that are adopted by small and medium enterprises in Kenya to cope with foreign market challenges by answering the following questions. What are the foreign market challenges faced by SMEs in Kenya? What strategies are adopted by SMEs in Kenya to cope with foreign market challenges?

1.3 Research Objectives

This research addresses the following two objectives

- i.To determine the foreign market challenges faced by small and medium enterprises in Kenya.
- ii.To establish the strategies adopted by small and medium enterprises in Kenya to cope with foreign market challenges.

1.4 Value of the study

The study will contribute to expansion of firms to foreign markets. In particular, the study will be useful to researchers and academia in the field of international business and it will be a source of reference in forming their future research topics and studies. Researchers

will be able to identify the challenges faced by firms in foreign markets as they try to explore the available opportunities globally and contribute to international business studies through literature review. The study will further contribute to the SME engagement in international trade and acquisition of international markets and the strategies adopted by these SMEs to cope with the foreign market challenges.

The study will also be useful in enhancing the development of international trade policy for the SMEs for use by the managers of the SMEs as well as the export regulatory organs in order to develop strategies in tandem with relevant approach to international trade that fits the capacity of the SMEs. It will also benefit policy makers in recognizing the unique challenges facing SMEs thus affecting their growth and expansion to foreign markets. The study will equip managers with skills required to face with the foreign market challenges.

Managers of the SMEs will be able to use the findings from the study to base their arguments for major managerial decisions concerning foreign market challenges and strategies to cope with these challenges. In among other factors it will help SMEs to respond to risks in the unforeseen business environment. The study will also help the SMEs already operating in the foreign markets to continue successfully by adopting the strategies to cope with the changes in the environment.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

SMEs interested in the field of internationalization of business need to possess the ability to think globally and have an understanding of international cultures. By appreciating and understanding different beliefs, values, behaviors and business strategies of a variety of companies within other countries, SMEs will be able to internationalize successfully. SMEs must also have an ongoing concern for innovation, maintaining a high level of quality, is committed to corporate social responsibility, and continue to strive to provide the best strategies to cope with challenges in the international market.

This chapter illustrates the various theories that prompted the researcher's thoughts into this research field. The chapter further highlights thoughts and influence of different writers in the area of SMEs operations in foreign markets. The chapter is divided into four parts with the intent to introduce a holistic approach to SMEs coping strategy on foreign market challenges.

2.2 Theoretical Foundation

This study is informed by two theories named, market imperfection theory and the mercantilism theory.

2.2.1 Market imperfection theory

Market imperfection can be defined as anything that interferes with trade. This includes two dimensions of imperfections. First, imperfections cause a rational market participant to deviate from holding the market portfolio. Second, imperfections cause a rational market participant to deviate from his preferred risk level. Market imperfections generate costs which interfere with trades that rational individuals make.

The idea that multinational corporations (MNEs) owe their existence to market imperfections was first put forward by Hymer, Kindleberger and Caves (1996). The market imperfections they had in mind were, however, structural imperfections in markets for final products. According to Hymer (1968) market imperfections are structural, arising from structural deviations from perfect competition in the final product market due to exclusive and permanent control of proprietary technology, privileged access to inputs, scale economies, control of distribution systems, and product differentiation, but in their absence markets are perfectly efficient.

2.2.2 Mercantilism Theory

The mercantilism theory is main economic system used during the sixteenth to eighteenth centuries. The main goal was to increase a nation's wealth by imposing government regulation concerning all of the nation's commercial interests. It was believed that

national strength could be maximized by limiting imports via tariffs and maximizing exports.

The researcher shall borrow from Mercantilist policies that are deemed politically attractive to some firms and their workers, as mercantilism benefits certain members of society. Mercantilism theory advocates for two approaches to enhance positive balance of payments; increase exports through subsidies and to reduce imports through imposing tariffs and quotas. (Pearce, 2007) argued that consciously or otherwise, every country is concerned about increasing export earnings. With Kenyan economy mainly dependent on success of SMEs, it will be interesting to establish what tariffs the Kenyan economy has put to discourage imports and also to learn what subsidies the SMEs that engage in foreign trade are benefiting from, and how such tariffs/subsidies have enhanced them to face the challenges they face in foreign markets.

2.3 Foreign Market Challenges

Small businesses dominate the international business arena by contributing 97% to the number of exports, according to the U.S. Department of Commerce. These businesses are able to take advantage of significant growth opportunities, but not without overcoming challenges and risks. Small businesses must plan for these potential challenges and risks in order to be successful and earn a return on investment (ROI) faster. During the past decade there have been steady technological and structural changes which have made it easier for SMEs to participate in the international economy. Governments have been

making efforts to reduce barriers to international business activity, at the global and especially at the regional level (WTO report, 2009). SMEs are still relatively underrepresented in the global economy contributing only 10% to FDI (Sakai, 2002).

Foreign market challenges include the organizational capacity of the firm to execute the marketing function; many SMEs face Product problems related to quality and technical requirements of the targeted export market segment, such as export product design, style, quality, packaging and labeling requirements and product adaptation or modification (Keng and Jiuan, 1989). Distribution is also another challenge. Many SMEs in developing countries lack information about marketing channels and fail to establish marketing networks. Gereffi (1992) pointed out that the lack of internationally recognized company brand names, and appropriate marketing and retail networks are export barriers to indigenous manufacturers. Other marketing barriers can inhibit exporting such as pricing of the product in the international market. (Christensen et al.1997) concluded that successful exporters rely on international competitive prices as a benchmark and do not ask for premiums for exchange and extraordinary risk.

Marketing knowledge and information is also a major challenge in the foreign market. This problem revolves around lack of knowledge of foreign markets, business practices, and competition; and lack of management to generate foreign sales. Lack of knowledge to locate foreign opportunities and promising markets is perceived to be a major barrier in exporting of SMEs in developing countries (Li, 2004). Marketing knowledge is dependent on the relevance and depth of marketing information available to the firm. Many SMEs run into problems for lack of timely and adequate working capital, which

not only adds costs but can also endanger the entire production operations. Credit unworthiness and transaction costs are reported as major factors that reduce access to credit. According to Collier and Gunning (1999) in Kenya more than half of the trade credits were extended, and delaying payments was the most common form of dealing with unexpected liquidity shocks.

Quality is often indicated as one of the most important conditions for entering and remaining in foreign markets (Neupert, 2006). It concerns packaging, meeting importers quality standards and establishing the suitable design and image for export markets. There are different quality standards in developing countries. However, many of the quality problems are the result of inadequate knowledge about market requirements, product characteristics and production technologies. The impact of technology on export performance has been discussed by (Christensen et al. 1998) and stated that if SMEs market their products in developed countries, technology could be an important source of competitive advantage over local producers. However for SMEs in Kenya, technology becomes a stumbling block rising over advanced technologies from competitors in developed economies.

Regarding competition barriers, in principle it should not be considered a barrier if no information asymmetries exist among competitors in the market. However, in practice, information on export opportunities is costly and not easily available. Furthermore, the type of competition perceived by a firm affects its interest in exporting. A few of researchers who found that competition is a barrier for company are (Burgess and Oldenboom, 1999). Lack of competitive prices and fierce competition in export markets

have been recognized as barriers. Especially small firms are vulnerable because of their limited financial and human resources hampering the collection of adequate information.

Export procedures with regard to exporting concerns the time and paperwork required to comply with foreign and domestic market regulations. Alongside governments, independent organizations such as banks, shipping organizations and insurance companies, have their own procedures. A firm that wishes to enter the export market or intends to increase its export activity will have to acquire the knowledge and skill to deal with administrative procedures. In particular for inexperienced managers foreign documentation and paper work may appear very difficult to cope with (Haidari, 2002).

2.4 Dealing with Foreign Market Challenges

It can be argued that the challenge for the managers of SMEs is to overcome the conditions unique to small firms, and develop international strategies such as joint ventures. Lindell and Karagozoglu suggest that international collaboration and partnership are the best ways to take advantage of new opportunities. (Voerman et al, 1997) argue that the national culture of the firm has a significant influence on the type of information source consulted and that there is a relationship between the quantity of information collected and the export sales (as an indicator of export performance). However, Henders (1992) proposes facilitation of organizational learning and skills acquisition to cope with strategic uncertainties. Peters (1998) advises on maximizing the use of limited resources and develop new technologies. He observed that better results are

expected in terms of export performance if SMEs were more ready to change to new production techniques, to develop new products and to invest in production capacity.

Strategy options for competing in world markets can be based on maintaining a national (one-country) production base and exporting goods to foreign markets. Licensing of foreign firms to use the company's technology or produce and distribute the company's products is also a strategy for competing in the foreign markets. Other strategy options could be employing a franchising strategy, using strategic alliances or other collaborative partnerships to enter a foreign market or strengthen a firm's competitiveness in world markets, following a multicounty strategy, or global strategy. Strategic alliances with foreign partners have appeal from several angles: gaining wider access to attractive country markets, allowing capture of economies of scale in production and/or marketing, filling gaps in technical expertise and/or knowledge of local markets, saving on costs by sharing distribution facilities and dealer networks, helping gain agreement on important technical standards, and helping combat the impact of alliances that rivals have formed.

Once a company has chosen to establish foreign operations, it has three basic options: first is to a think-local, act-local approach to crafting a strategy, secondly, a think-global, act-global approach to crafting a strategy and the third one is a combination of think-global, act-local approach. A think-local, act-local strategy is appropriate for industries where multicounty competition dominates; a localized approach to strategy making calls for a company to vary its product offering and competitive approach from country to country in order to accommodate differing buyer preferences and market conditions. A think-global, act-global approach works best in markets that are globally competitive or

beginning to globalize; global strategies involve employing the same basic competitive approach (low-cost, differentiation, and best-cost, focused) in all country markets and marketing essentially the same products under the same brand names in all countries where the company operates. A think-global, act-local approach can be used when it is feasible for a company to employ essentially the same basic competitive strategy in all markets but still customize its product offering and some aspect of its operations to fit local market circumstances.

Campbell (1997) suggests that SMEs should concentrate upon a specialization/niche strategy. The risk in devoting SMEs themselves to specific-local segments is evident, since globalization makes it easier for big companies to attack niches. A very small segment in a local context can be easily satisfied together with several similar ones in the rest of the world by SMEs, so that there is wide production devoted to many niches. SMEs generally can successfully exploit their recognized flexibility in overcoming cyclical downturns when compared to larger local competitors.

Kenyan SMEs could successfully take advantage of the stream of innovations in information technology (internet and electronic commerce) to reach new customers and to increase interaction with old ones. This chance can turn into a direct competitive advantage. While new communication technology is easy and accessible (low investment and large results), this holds true for all SMEs with a vested interest in foreign trade.

Before undertaking market, or nonmarket analyses, we must consider the geographic context of operations. First of all, firms must focus on the market and nonmarket characteristics of the particular country or countries they plan to enter. This “multi-

domestic” focus suggests that a firm must be sensitive to the individual characteristics of different target countries. Regarding a countries market, this involves a consideration of existing and potential competitors and suppliers.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involved a blueprint for the collection, measurement and analysis of data. This chapter discusses the methods that were used in the collection and analysis of data and how presentations were done. It also discusses how the objectives of the study were met. It specifically covers issues to do with research design, data collection and data analysis.

3.2 Research Design

According to Young and Nadarajan (2003) a research design is “the logical and systematic planning and directing a piece of research”. Yet, Kerlinger and Rogelberg (2002) defines a research design as the plan, structure and strategy of investigation so envisaged as to get answers to research questions. This means that a research design represents the blueprint or guide, for the data collection, measurement, and analysis.

This study adopted a cross sectional study design which involved a qualitative research. Qualitative research according to Strauss and Corbin (1990) is "any kind of research that produces findings not arrived at by means of statistical procedures or other means of

quantification". It assists in gaining new a viewpoint on problems about which little is yet known or to gain more in-depth information that may be difficult to convey quantitatively.

3.3 The Study Population

Kothari (1986) defined research population as a group of persons, objectives, or items possessing common characteristics and identified for the study. The target population of this study was exporting SMEs based in Nairobi Kenya. There are close to 500 of the firms in this sector located within Nairobi, Most of them dealing in exporting agricultural products from Kenya.

This study applied purposive sampling techniques to select the firms. Stratified sampling was used to select a sample from managers and employees of each SME selected for the study. 20 SMEs engaged in foreign trade were selected randomly using purposive sampling techniques to reach out to those SMEs that served the purpose of this study; the SMEs were all based in Nairobi. The researcher interviewed 60 respondents. Stratified sampling was applied to sample managers in the firms and employees in the various departments.

3.4 Sample Design

The main study was guided by sampling – getting a finite part of a collection of elements whose properties were studied to gain information about the whole (Patton, 1990). Sampling here meant a process of selecting a suitable sample, or a representative part of a population for the purpose of determining characteristics of the whole population. The study used a sample of site (region) and organizations (SMEs engaged in exporting) from which samples of respondents (people) were selected from a larger population for the purpose of the study.

The study was limited to SMEs engaged in export business in Kenya. Consultation was made with the primary contact persons from target SMEs to develop the list of firms that were recruited to participate in the study. The decision was made to include SMEs engaged in foreign trade, regardless of their size or structures. Among others the selection criteria was informed by the Geographical suitability - all being from Nairobi for cheapness and easy access, having track record of being in foreign trade and being in operation for a minimum of three years.

3.5 Data Collection

A mixed approach of both qualitative primary and secondary methods for data collection and analysis were used. The use of different methods and techniques was to ensure rigor and reliability of the findings of the study as suggested by Green (1989). Secondary data

was obtained from the literature review. A research Assistant worked with the researcher to increase commitment to the review process.

The required data was collected by the means of self-administered questionnaires, which were developed for this purpose. A questionnaire is a research tool that gathers data over a large sample (Kombo, 2006). The questionnaire was the most appropriate research tool as it allowed the researcher to collect information from a large sample with diverse background. The survey was directed to the top management, finance and accounting department, and the operations department, whose opinions reflected the practices on the foreign trade policy within the organization. Data was collected for a period of two weeks from 2nd of September to 13th of September.

3.6 Data Analysis

The study applied qualitative and quantitative data analysis techniques to analyze data. This ensured that the data was analyzed in a systematic way in order to come to some useful conclusions and recommendations. Data obtained from the questionnaire document analysis was coded, organized, analyzed using SPSS and presented using frequency tables and percentages. Regression analysis and chi square tests were done to test and establish the relationships.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATIONS AND DISCUSSIONS

4.1 Introduction

This chapter presents descriptive data analysis, interview responses and discussion of findings. The chapter also presents the profiles of the respondents and the organizations which formed the sample of this study. Percentages, means and standard deviations, were computed and presented in frequency tables. The results were presented and interpreted. The descriptive data presented in this chapter have been used as the basis for making inferences.

4.2 Response Rate

The population of the study comprised of the 60 managers in the targeted exporting SME's in Kenya based in Nairobi. The return rate was 99 percent of the managers from the SME that were approached. Drop and pick method was used while personal face to face visits boosted the data collection efforts. Personalized letters and follow-up telephone calls to the respondents also improved the response rate.

4.3 Demographics

The questionnaire was administered to at least one manager in each of the SME's approached. This was as presented in the figure 4.1 below.

Figure 4.1 Education levels of the managers

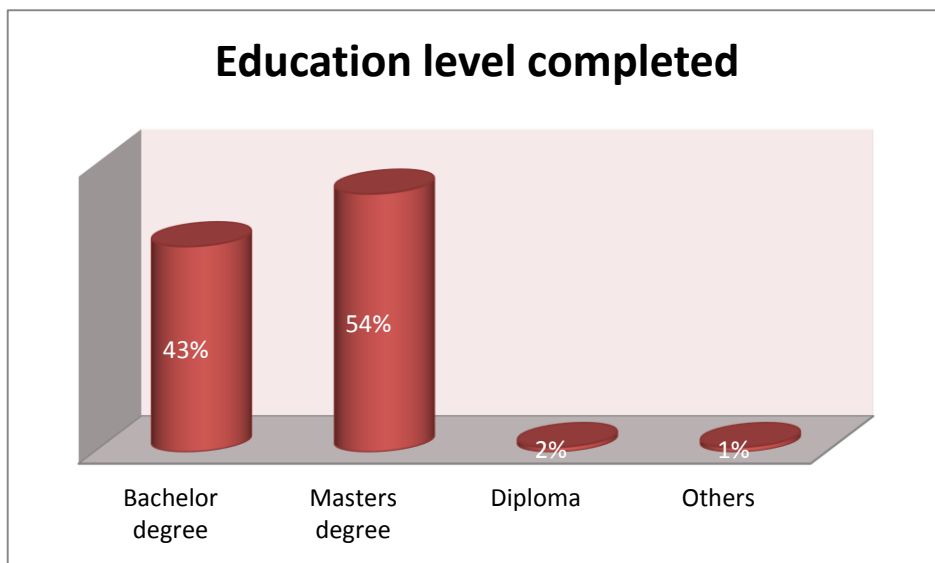


Figure 4.1 above shows distribution of respondents by level of education. The level of education of the respondents ranged from Diploma, Bachelors and master's degree. The majority of the respondents had a Master's degree. The 43 percent who had a first degree and the 54 percent for Masters Level of education shows that the SME's have a well-educated workforce at the management level.

Figure 4.2 Distributions of Respondents by Gender

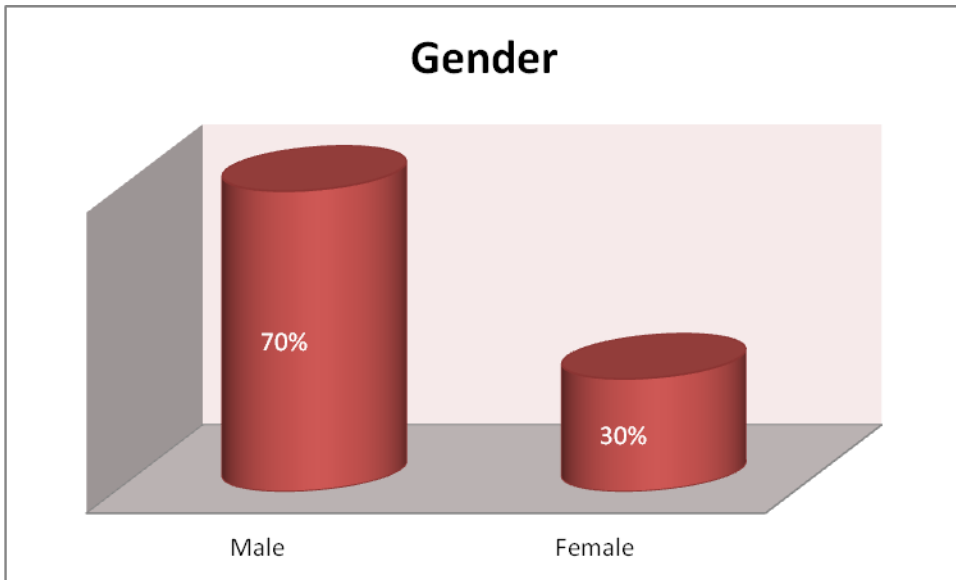


Figure 4.2 above shows the distribution of the gender of the respondents. Male respondents were 70 percent while 30 percent were female participants. This shows that majority at the senior management level was men.

Figure 4.3 Distribution of Respondents Age

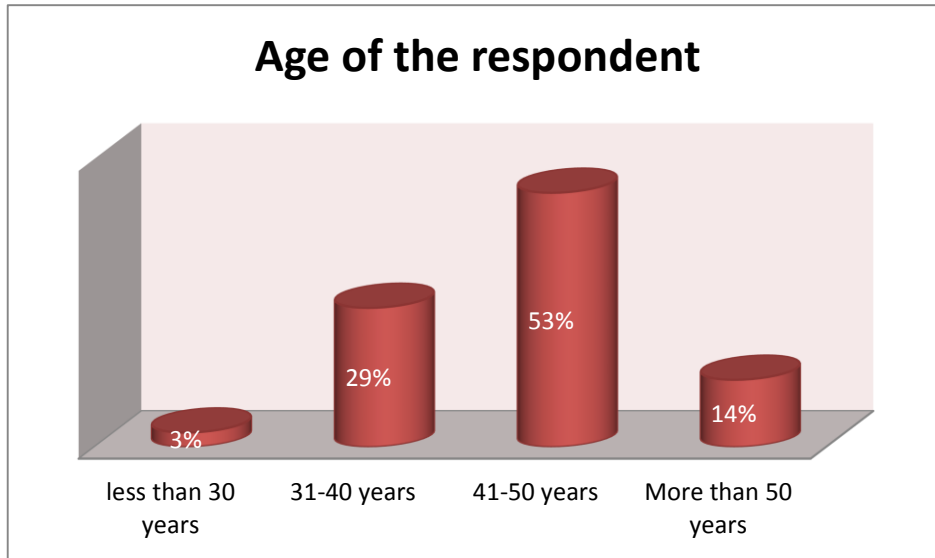
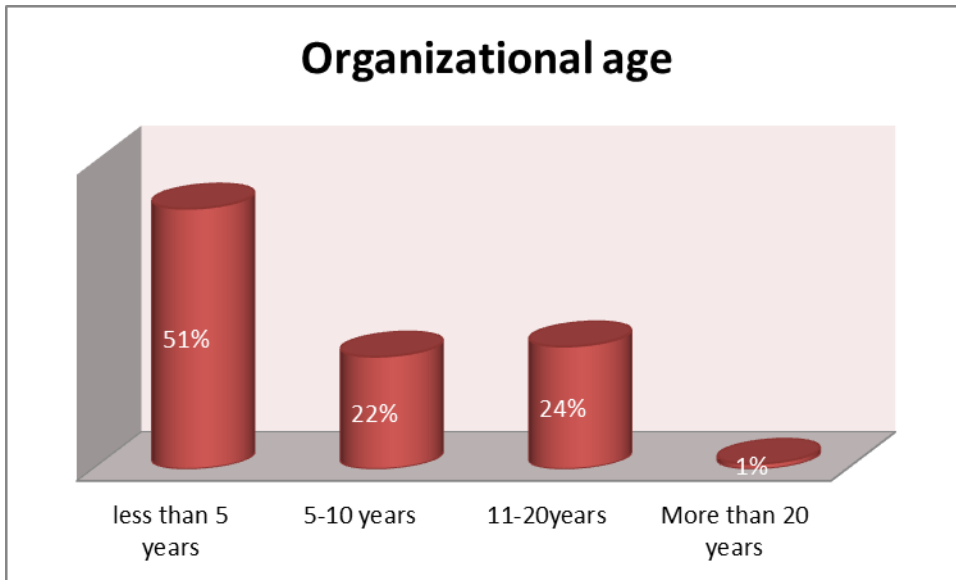


Figure 4.3 above shows the age distribution of the respondents. 53 percent were between 41 – 50 years, 29 percent were aged between 31 – 40 years, and 14 percent were more than 50 years old while 3.0 percent were less than 30 years old. The age of the majority of the senior managers fell between 31 – 50 years and this constituted 82 percent of the respondents. This shows that the SMEs had recruited middle aged and experienced employees at the senior management level who were in most cases owners of the establishments.

4.4 Organizational Profile

The organizational profile shows the characteristics of the corporations which participated in the study.

Figure 4.4 Age off the organization



The first question was on years of operations. Range of years of organization's operation is shown in figure 4.4. Respondents were asked to indicate the number of years the organization was in operation. It was noted that 51 percent of the firms had been in operation for less than 5 years, 24 percent had been in operation for between 11–20 years, 22 percent had existed for between 5 – 10 years while 1 percent had only been in existence for over 20 years. This shows that the majority of the SMEs are newer in the business and likely to face common foreign market challenges.

Figure 4.5 Distribution of Organization by Size

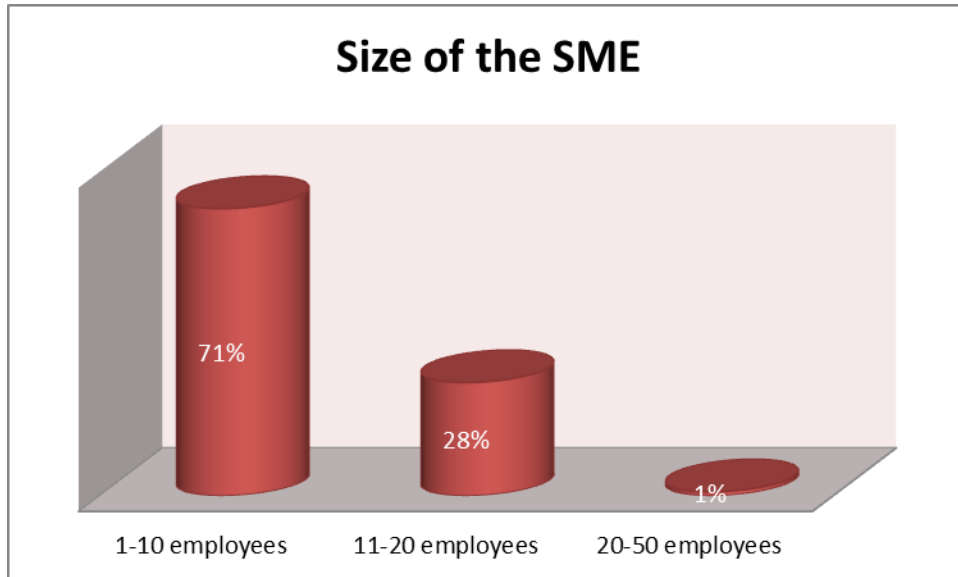
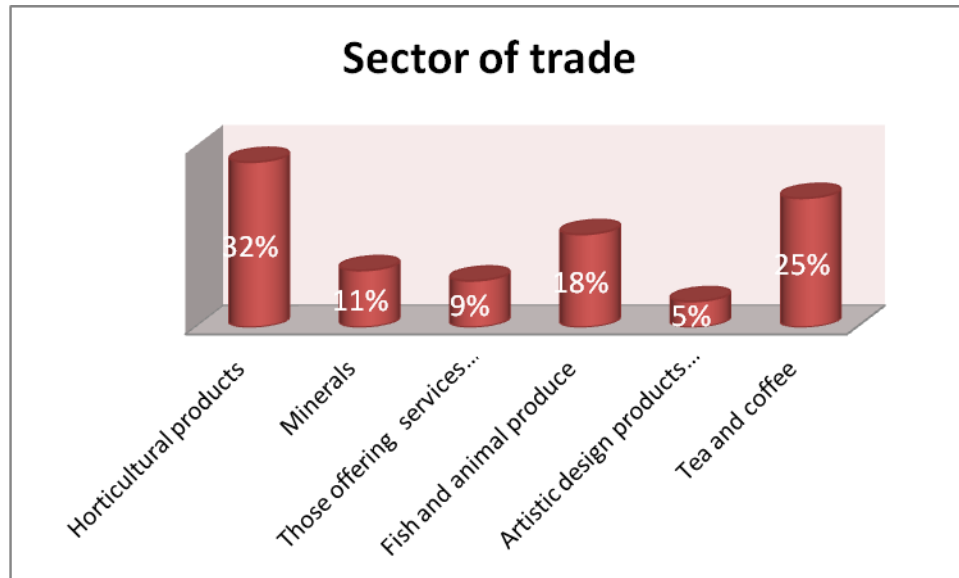


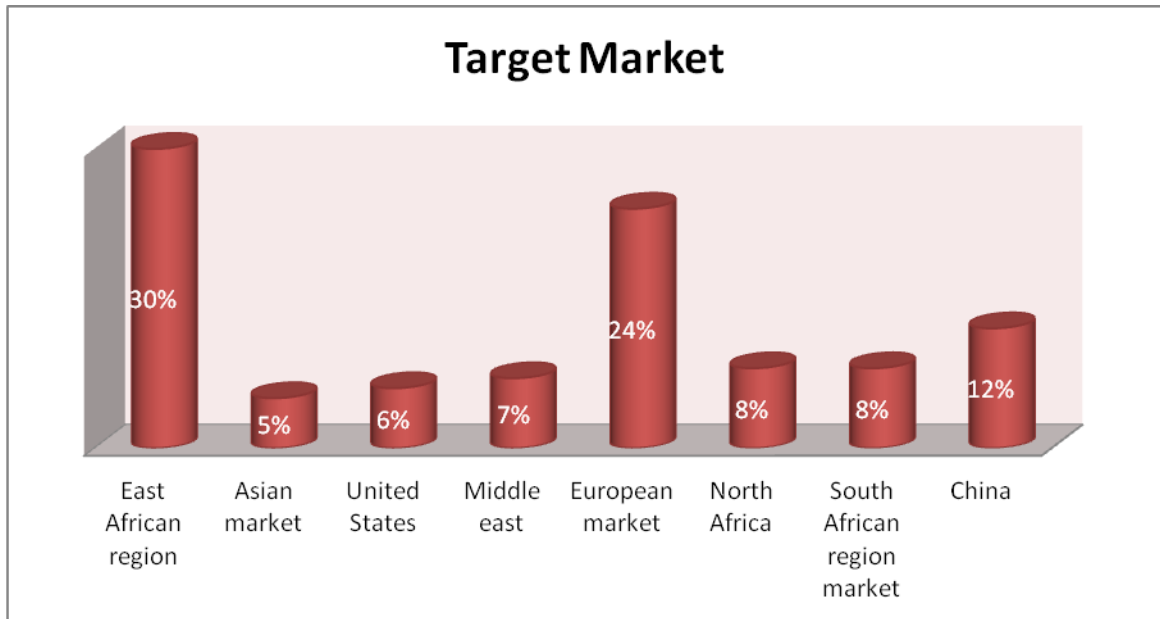
Figure 4.5 provides information on size of the corporations measured in number of employees. 71 percent had up to 10 employees while 28 percent had 11-20 employees. The SMEs in the study have been categorized as micro-small enterprises. These enterprises are categorized by the small number of employees they maintain ranging from 1-50 employees. This definitions has been adopted from Soderbon (2004) and Jica and moti (2008) classification of various sizes of enterprises.

Figure 4.6 category of trade



Trade in Horticultural products category recorded a 32 percent of the SMEs, those offering services were 9 percent of the covered SMEs. 11% were engaged in export of minerals, 18% exported fish and animal products as 5% reported being involved in the export of artistic design goods like curios to foreign markets. 25% reported involvement in export of tea and coffee.

Figure 4.7 Distribution of Firm by Target Market



As indicated in the figure 4.7 above, East African market remains the largest consumer of Kenyan exports as reported by 30% of the managers of the SMEs engaged in foreign markets. European market still remains a key target market for Kenyan goods as reported by 24% of the responses. Chinese market has also gained attraction from Kenyan traders with 12% of the SME managers citing china as their target market. Other markets reported were South African region, United States, North Africa, Middle East and Asian market with 8%, 6%, 8%, 7%, and 5% respectively. This shows that most target markets lean majorly on countries that have traditional diplomatic and trade ties. This is in support of the literature review argument that most foreign markets are dependent on diplomatic relations at state level.

4.5 Foreign Market Challenges faced by SMEs in Kenya

This section details the major findings pursuant to the first objective of the study i.e. To determine the foreign market challenges faced by Small and Medium Enterprises in Kenya. The questions were asked using a five-point scale where, 1= Not at all, 2= little extent, 3= Moderate extent, 4= Great extent and 5= very great extent.

Table 4.1 Foreign market challenges

Foreign market challenges	Mean	Std. Deviation
Communication problems	2.69	0.92
Competition from local forces	3.05	1.02
Political problems	3.07	0.98
Cultural diversity	2.96	0.95
Production and cost limitations	3.31	1.04
Legal constrains	3.25	1.10
Media limitations	3.14	1.07
Financial problems	3.01	1.01
Administrative procedure problems	3.21	1.09
Product quality problems	3.23	0.98

Marketing knowledge and information problems	3.30	0.97
Pricing of product problems	3.28	0.97
Technological problems	3.13	1.07
Transport and infrastructure problems	3.13	1.02

Foreign market challenges were measured using 13 items rated on a five point scale ranging from 1 –5 from 60 respondents. The mean was summarized as shown in table 4.8 above. Among the challenges production and cost limitations had the highest mean which was 3.31 depicting that most companies are faced by this challenge in the foreign market. This was followed by pricing of product problems with a mean of 3.28 and the third challenge was legal constrains with a mean of 3.25.

Respondents commented that communication problem was not a major problem to them as most countries speak English and this was the least faced challenge with a mean of 2.69. The second least challenge according to the respondents was cultural diversity which had a mean of 2.96 and the third least was financial problems with a mean of 3.01 stating that they had prepared financially before venturing into the foreign markets.

4.6 Strategies adopted by SMEs in Kenya to cope with challenges

This analyses the second objective of the study which was to establish the strategies adopted by Small and Medium Enterprises in Kenya to cope with foreign market challenges and a five point scale was used to rate the where: 1= Not at all, 2= little extent, 3= Moderate extent, 4= Great extent and 5= Very great extent.

Table 4.2 strategies of coping with foreign market challenges

Strategies of coping with foreign market challenges	Mean	Std. Deviation
International collaboration and partnerships	4.55	0.59
Facilitation of organizational learning and skills acquisition	4.38	0.62
Developing of new technologies	4.30	0.72
Licensing of foreign firms	4.38	0.57
Knowledge of local markets	4.44	0.81
Joint ventures, mergers and acquisitions	4.20	0.86
Financial plan	4.55	0.59
Know your logistics	4.38	0.62
Pay attention to environmental issues	4.55	0.59
Export plan	4.38	0.69
Marketing research	3.88	0.13
Reduction and removal of trade barriers	4.30	0.72
Meeting importer quality standards	4.38	0.57
Positioning of firms in foreign markets	4.51	0.63

14 Items were used to measure the extent to which the SMEs applied the strategies of coping with the foreign market challenges. The strategy that had the highest mean of 4.55 was international collaborations and partnerships, the financial plan of the firms and

also paying attention to environmental issues. This reflected that those SMEs that have been successful in the foreign market had applied these strategies to a great extent. The strategy that was second mostly applied was positioning of the firm with a mean of 4.51. They explained that they had learnt from past failures that proper position would work for them and thus they applied this strategy. The third most applied strategy was knowledge of local markets with a mean of 4.44 where they fast had to learn about the market of the target foreign market before venturing there.

Strategies that were least adopted included the marketing research with a mean of 3.88, followed by joint ventures, mergers and acquisitions with a mean of 4.2 and the third least was developing of new technologies with a mean of 4.3.

4.7 Discussion of findings

One of the objectives of this study was to identify the challenges faced by SMEs while operating in foreign markets, the study found out that communication was not a major challenge faced by SMEs. This was not consistent with data from the literature review as argued by Sakai (2002) that SMEs are still relatively underrepresented in the global economy due to communications blockade contributed by among other factors lack of communication avenues to get established. Marketing knowledge and information was a major challenge according to li (2004) which is consistent with what we found out from the study where this challenge had the highest mean.

Also from the study, it was revealed that Competition from local forces, Political problems, Cultural diversity and Production and cost limitations are some of the problems facing Kenyan SMEs that are engaged in foreign trade just as was argued by Keng and Jiuan (2006) in their study of SMEs operation in foreign markets and therefore this challenge was consistent with findings from the study. Other challenges found out from the study were those discussed by Gereffi (1992) in his study on internationalization of SMEs. The challenges he discussed involved Legal constrains, Media limitations, financial problems, Administrative procedure problems and Product quality problems. All these challenges he reported emanated from the capacity levels of the SMEs in terms of capital and asset extensity.

Other problems documented from the findings of the study included challenges emanating from environmental factors outside the control of the SMEs put forward by (Christensen, 1997). These challenges were found out to be marketing knowledge and information problems, Pricing of product problems, Technological problems and Transport and infrastructure problems.

The second objective of the study sought to establish the strategies adopted by SMEs in order to cope with the foreign market challenges discussed above. From the study we were able to find out that the most adopted strategies were international collaborations and partnerships, financial plan and paying attention to environmental issues. This was consistent with the findings of Lindell and Karagozoglu (1997) who suggested that international collaboration and partnership are the best ways to take advantage of new

opportunities SMEs have devised methods of coping with the foreign market challenges by devising relevant strategies in order to remain steadfast in their foreign trade. The literature review identified some strategies applied by SMEs across the world as; international collaboration and partnership are the best ways to take advantage of new opportunities as proposed by (Voerman et al, 1997).

According to Henders (1992) the findings of this study confirmed this to be one of the strategies used by SMEs to cope with foreign market challenges. Another strategy as per the findings of the study was found to be facilitation of organizational learning and skills acquisition to cope with strategic uncertainties. Peters (1998) advises on maximizing the use of limited resources and develop new technologies a strategy highly reported by most of the respondents who participated in the study. Campbell (1997) suggests that SMEs should concentrate upon a specialization/niche strategy. From the findings of the study all these proposed strategies were reported as strategies being applied by Kenyan SMEs to cope with foreign market challenges therefore were consistent with the information from the literature review.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the research problem and discusses the broader implications of the findings for theory, practice, policy and further research in the field of International trade. The structure of the chapter is guided by the research objectives. The chapter attempts to explain why the findings are the way they are and to what extent they are consistent with or contrary to past empirical findings and theoretical arguments.

5.2 Summary of findings

From this study we were able to find out that the foreign market is full of challenges. Some of these challenges according to the study were communication problems, competition from local forces, Political problems, Cultural diversity, Production and cost limitations and Legal constrains among others. These challenges were seen to affect SMEs that venture into foreign markets leading to their failure in those markets.

From the study we also found out that these SMEs adopted certain strategies to cope with these challenges. Some of the strategies included International collaboration and partnerships, Facilitation of organizational learning and skills acquisition, Developing of

new technologies and Licensing of foreign firms among others. These strategies helped most of the SMEs to succeed even after they were at the verge of closing down.

5.3 Conclusion of the study

Because of the challenges that come up when firms engage in foreign markets, it is concluded that redesigning of roles of all firms in the local as well as in the global value-chain is vital. SMEs, in particular, need an organizational solution to deal with the evolving trends. Such a solution must be suitable, both for those small firms whose problems derive from the fading of their typical economic environment (regional cluster), and for those small-sized local leaders who want to enter global markets by exploiting their distinguishing flexibility and reactivity against larger competitors.

It can also be concluded that most of the challenges are out of control of the SMEs capacity. These are challenges emanating from prevailing issues in the environment. These challenges need interventions from other stakeholders such as government institutions, global business development agencies such as the World Bank and any other local and global players who can provide such solutions. It is however clear that most of the challenges have much to do with organizational capacity to compete with multinationals which usually have high capital muscle as well as market good will. This would call for the SMEs to consider mergers and partnerships in order to cope with high profile foreign market challenges.

5.4 Implication's for theory and knowledge.

The study has contributed to international marketing knowledge in several ways. The findings show that contrary to earlier findings by Campbell (1997), Bhagwati and Kindleberger (2008) and World Bank (1999) SMEs foreign market challenges are within the capacity of the SMEs for solving. The study found out that most of the challenges can be solved through use of relevant strategy aligned to the core objectives of the SMEs foreign market targets. This further shows that the little capital that SMEs invest in foreign markets achieves intended results and engaging in foreign market is a worth growth strategy for SMEs in developing countries to earn foreign exchange for the economy and expand their businesses.

Another contribution to International Marketing knowledge is that focusing on strategy to provide foreign market solutions combined with other internal organizational factors, like culture of the organization assist in achieving unique international market targets. A good example was the unique face of Indu farm EPZ ltd that the firm has produced due to one of its norms in the organization and this was embracing innovation. Innovation is an annual norm in the foreign market. Indu farm EPZ ltd produces varied product designs for different foreign markets thus solving the problem of market diversity. In the process revenue increased but at the same time a unique face of the firm has been created.

5.5 Implications for managerial policy and practice

Management can apply the findings of the study in several areas of International marketing and global markets approach. Policies touching on SMEs can be developed to cater for areas where organizational capacity is still weak. These are in areas like legal constraints involved in foreign trade, accessibility to credit to enhance foreign trade and also in enhancing logistical assistance for exporting SMEs since they earn foreign exchange for the countries. Respondents during the interview stated that better strategies needs to be put in place such as employing more professional employees and investing in foreign strategy to cope with foreign market challenges.

5.6 Limitations of the study

During the data collection process we encountered few problems like most managers were absent at the time we went to collect the data therefore we were forced to go back on a day that they were available and hence this was time consuming as most SMEs were located far from the city center. However once we got hold of them they were willing to assist with the information we needed by filling out our questionnaire without problems.

Another limitation was that most of the companies being small companies of few employees there was only one manager responsible for all the departments like finance,

marketing and human resource. Therefore we were not able to get the view of the different departments.

5.7 Suggestions for further research

The study was limited to SMEs involved in export trade and those that were only based in Nairobi. Further studies could be done to determine the challenges and strategies adopted by SMEs through the country so as to get a wider view of the study topic. Other studies could also be done on those that import to Kenya so that we could also see what challenges they face and how they cope with such challenges.

More studies could also be done targeting the strategies that firms should adopt before venturing into the foreign firms. This could act as precautionary measures that they should follow before they open firms in the foreign markets so that they avoid facing the stated challenges

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APPENDICES

APPENDIX 1: QUESTIONNAIRE

BACKGROUND INFORMATION

The questionnaire has brief sections and will only need ticking or circling the right answers.

Section A-Bio data

Please tick the most appropriate answer.

1. What is your highest level of education?

.....
.....

2. How many years have you worked in the organization?

.....
.....

3. Gender: Male [] Female []

4. What is your age

.....

Section B: Information on the Organization

1. Name of the organization (**Optional**)

.....
.....

2. How old is the organization?

-

3. How many employees does the organization have?

4. Which is the target market?

5. Which sector is the organization in?

6. Which foreign markets does the organization venture into?

Section C: Foreign Market Challenges

To what extent do you encounter each of the following challenges in foreign markets?
 Use a five point scale, where, 1= Not at all, 2= little extent, 3= Moderate extent, 4= Great extent and 5= very great extent. Tick appropriately.

Foreign Market Challenges	1	2	3	4	5
Communication problems					
Competition from local forces					
Political problems					
Cultural diversity					
Production and cost limitations					

Legal constrains					
Media limitations					
Financial problems					
Administrative procedure problems					
Product quality problems					
Marketing knowledge and information problems					
Pricing of product problems					
Technological problems					
Transport and infrastructure problems					

Other challenges (please indicate below)

.....

.....

.....

.....

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.....

Section D: strategies adopted to cope with the challenges

To what extent have you applied each of the following strategies to cope with the foreign market challenges? Use a five point scale, where: 1= Not at all, 2= little extent, 3= Moderate extent, 4= Great extent and 5= Very great extent

Strategies for coping with challenges	1	2	3	4	5
International collaboration and partnerships					
Facilitation of organizational learning and skills acquisition					

Developing of new technologies					
Licensing of foreign firms					
Knowledge of local markets					
Joint ventures, mergers and acquisitions					
Financial plan					
Know your logistics					
Pay attention to environmental issues					
Export plan					
Marketing research					
Reduction and removal of trade barriers					
Meeting importer quality standards					
Positioning of firms in foreign markets					

Other strategies (please indicate below)

.....

.....

.....

.....

.....

APPENDIX II: LIST OF FIRMS TO BE COVERED

1. Samaki (2000) Ltd	Nairobi corner house+25420533952
2. Andovalen Holdings Ltd	NairobiHughesBuilding Kenyatta Avenue. 3 rd floor. 254-202454243
3. Longonot Commodities Ltd	Hughes Building Kenyatta Avenue. 3 rd floor2244747
4. Makindu Growers and packers Ltd	Nairobicargo village 822196
5. Belt Cargo Services Ltd	NairobiNabui House, 3rd floor, off Mpaka Road, Westlands 4448822
6. Sohum Agencies Ltd	Nairobi Tom Mboya Street. Nairobi Importers and Exporters 0202221878
7. Bud of Paradise	Nairobi(254) 20 21 62 96 (254) 20 21 62 96
8. Joyker Agencies	Nairobi Tom Mboya Street. Nairobi Importers and Exporters 020 240865
9. East African Growers Ltd	Nairobi020 822025
10. Sacco Fresh Ltd	Nairobi quran hse 020 824687
11. Sembel trading company	Nairobi sembel Trading Company Ltd, Nairobi(254) 20 - 248909 KCS Building, 5th floor

12. Soko sweety ltd	Nairobi 254 20 652360/651882 Email: info@sokosweety.com
13. Vet care kenya	Nairobi info@vetcarekenya.co.ke 020 2052994
14. Frigoken Ltd	Nairobi Baba Dogo Rd Ruaraka 254 020 8560449
15. Scan Africa exporters ltd	Nairobi Butere Road, Off Bandari Road, Industrial Area (254) 20552351
16. Greenlands Agro producers ltd	Nairobi+25420827081
17. fresh produce	Nairobi New Rehema House, 4th Floor, Rhapta Road, Westlands Tel: +254 20 4451488, +254 20 4450442
18. W. E. Tilley (muthaiga) Ltd	Nairobi+254208562204

19. Wamu Investments Ltd	Nairobi 020 823441 Embakasi
20. Indu Farm EPZ Ltd	Nairobi 020 550215 Sameer industrial park