THE STRATEGIC IMPLICATIONS OF EAST AFRICAN REGIONAL INTEGRATION TO SMALL AND MEDIUM ENTERPRISES IN KISUMU COUNTY, KENYA

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DECLARATION

This research project is my original work and has not been presented for a degree award in this or any other university.

Signature …………………………… Date………………………………….

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This research project has been submitted for examination with my approval as the candidate's supervisor.

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Dedication

This study is dedicated to my sister Flo for her support, encouragement, advice and guidance throughout this programme.

You made it seem much easier.

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ACRONYMS AND ABBREVIATIONS

CET	Common External Tariff
CMA	Capital Markets Authority
EAC	East African Community
FTA	Free Trade Area
GDP	Gross Domestic Product
GoK	Government of Kenya
KNBS	Kenya National Bureau of Statistics
MNE	Multi National Enterprises
PTA	Preferential Trade Area
ROO	Rules Of Origin
RTA	Regional Trade Agreement
TMEA	Trade Mark East Africa
SME	Small and Medium Enterprise
WTO	World Trade Organisation

ABSTRACT

Regional integration is defined broadly as the association of states or nations that lie in a common geographical area on the globe, to safeguard their economic and trade interests as a bloc, usually through reduction of trade barriers. The key rationale behind regional integration arrangements is to create large investment areas and enlargement of markets. This is intended to boost trade and investment and hence economic growth. Kenya has continued to play an increasingly significant role in the inception and growth of regional trading blocs in the region, and a key object of this participation would be the expected benefit to traders, investors and other stakeholders in its economy. Small and Medium size enterprises constitute a major sector in the economies of most nations, and Kenya is no exception. Their progress must be considered in decision and policy because a healthy SME sector guarantees progressive economic growth for any nation. The small and medium size organisations and the policy makers will find it obligatory to follow closely or even predict the developments in this sphere and adopt strategies to reap gains from the arising opportunities while addressing any exposure therefrom. Timely response is critical to avoid adverse effects or missed opportunities. This study sought to identify the strategic implications that are faced by small and medium enterprises resultant from the nation's participation in regional integration initiatives. The research established that the SMEs studied have actually accrued benefit from the nation's integration efforts. They have gained through broader opportunities, reduced red tape in business, lower costs and hence profits. The only downside noted for traders was increased competition. Regional Integration is therefore beneficial for business. It should be supported and progressed deeper and wider for greater economic benefit. The researcher recommends further research in other business sectors and regions to confirm wider applicability of the observed result.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The nature of international trade and international relations between states has been evolving rapidly over the last few decades. This has resulted in formation of varying forms of agreements to guide the terms of interaction and trade policy between two or more states, resulting in regional integration. Carbaugh (2004) defined economic integration as the elimination of restrictions concerning trade, payments and factor mobility across countries resulting in uniting two or more national economies. Regional integration is defined broadly as the association of states or nations that lie in a common geographical area on the globe, to safeguard their economic and trade interests as a bloc, usually through reduction of trade barriers. Regional integration is the process of putting together various economies in a given area or region into a single unit for regional economic development (Mutharika, 1972).

The purpose of strategy is to provide directional cues to the organization that enable it to achieve its objectives while responding to the opportunities and threats in the environment (Pearce and Robinson, 2011). The strategic implications are those opportunities and the threats that an entity faces resulting from changes in its internal or external environment. This necessitates a continuous Strategic diagnosis by entities. This is a systematic approach designed to determine the choices that have to be made to a firm's strategy and internal capability in order to assure the firm's success in the future environment. Changes in operating environment will determine the long term survival of any business entity. The decision by the administration or the leadership of a nation to join membership of a given economic bloc is dependent upon many factors and considerations. Varying explanations advanced to support this phenomenon identify commercial positioning as the main driving force behind regional integration. According to Mitrany (1966), common economic interests create the need for international institutions and rules among nations. The neo functionalist theory tends to support this view by stating that benefits of integration in one sector will catalyse integration in other sectors. Through the spill-over effect, integration would deepen from economic to political and the result would be an integrated union of states (Rosamond, 2001). Another incentive for integration is anticipated welfare benefits for the nations' citizenry. This results from the effects of trade creation or trade diversion as advanced by Viner's theory of economic integration. The result of these two phenomena is either a beneficial or a negative welfare change (Kreps, 1997).

Small and Medium size enterprises constitute a major sector in the economies of most nations, and Kenya is no exception to this phenomenon. Their interests and their progress must always be considered in decision and policy. They play a highly significant role in the development and growth of their economies and a healthy SME sector guarantees progressive economic growth for any nation. The Kenya National Trade Policy identifies participation in international trade as a key strategy to widen market access for local entrepreneurs (GoK, 2010). This will be significantly attained through inception and enhancement of bilateral and Regional Trade Agreements (RTA) that create a favourable environment for local enterprise. Regional integration intertwines the aspects of economic integration which involves unification of policies for trade facilitation, and graduating to political integration which aims to integrate member states' laws and governance structures. Regional integration has the potential to unlock markets, provide economies of scale and attract more foreign direct investment. Some impressive progress has been achieved by the East African Community (EAC), a customs union comprising Kenya, Uganda, Tanzania, Rwanda and Burundi (Downie, 2013).

1.1.1 The Concept of Strategic Implication

The management of any business enterprise must identify the important factors that influence the entity's ability to achieve its goals and to earn profits, and these factors are either external or internal (Nyandemo, 2007). These factors will determine the entity's immediate success as well as long term survival if it hopes to remain a going concern. Scholes (2000) defined strategy as a direction and scope of organization over the long-term, which achieves advantage for the organization, through its configuration of resources within a changing environment. Strategic implication identifies the strategy options that will become necessary for an organization to best respond to a change or occurrence in its environment for its long term success. The concept of strategic implication will encompass the effects or consequences resulting from a given event or decision. These effects may be beneficial or they may be negative effects to a party that is either directly or indirectly concerned, be it an individual, organisation or a state and will include any ensuing opportunities or threats (Thompson & Strickland, 1993).

The benefits to an entity will include any quantifiable gains such as a resultant increase in revenues, profits, trade turnover or reduction in costs or expenses. It will also include the qualitative advantages such as convenience, ease, esteem, presence or recognition. Beneficial implication of Regional integration can accrue to a firm through availability of cheaper inputs, cheaper or diverse skill of labour force, technology and access to wider markets for products and finance or capital.

Strategic implications also include the threats such as the direct costs or expenses or losses that result from a certain event, choice or course of action. It will include any resultant increase in cost of inputs, materials, processes or activities as well as the exposure to risks, declining sales or an increase in the possibility of incurring loss. All such scenarios will necessitate a conscious strategy decision (Scholes, 2000).

1.1.2 The concept of Regional Integration

The tendency towards regional integration by states has steadily gained credence all over the world and has been replicated in diverse sectors. Regional integration is defined broadly as the association of states or nations that lie in a common geographical area on the globe, to safeguard their economic and trade interests as a bloc, usually through reduction of trade barriers. These are the barriers that hinder the free flow of goods, services and factors of production between nations. According to Delux (2010), Regional integration is a stage that demonstrates the development of world economy and a more challenging phase in economic relations among countries. Regional integration refers to the formation by a group of nations, usually sharing a common geographical location, into a common bloc to jointly promote their economic and trade interest.

Wilson (2011) argues that there is a close connection between economic integration and performance of businesses in the partnering countries. Nations in a common geographic setting are more likely to have similar resources, hence products and therefore similar trade and economic interests. Most of the states still maintain a political relationship which is used to foster trade and resolution of disputes (Yabs, 2007). Regional integration progresses through several stages namely preferential Trade Area(PTA), Free Trade Area (FTA), Customs Union, Common Market, Monetary Union, and ultimately an Economic Union. Each successive stage is characterised by deeper integration and further cessation of member independence. The nature and form of the integration arrangement is dependent upon the scope of activities and the loss of sovereignty that the nations are willing to cede.

The key rationale behind regional integration arrangements is to create large investment areas and enlargement of markets. The aim of regional integration is to boost intra-regional and inter-regional trade through the reduction and eventual elimination of tariff and non-tariff barriers to trade and movement of products, resources and services. Tariff barriers are in form of taxes and levies on products while non-tariff barriers are the subjective government policy, regulation or procedure that impedes trade through means other than explicit tariffs e.g. quantitative restriction on imports of a product, which is referred to as a Quota. States ordinarily aim to promote exportation and discourage imports so as to strengthen the economies and improve the Balance of Trade and avoid over dependency on foreign suppliers (Robert and Anane, 1998). This is a key objective of many nations' export promotion strategies as it encourages productivity, innovation and job creation. The envisaged benefits from regional integration are mainly commercial and economic advantage for the member states and the constituent investors. However political integration invariably follows because as the member economies integrate, it becomes necessary to have compatible social and political policies.

1.1.3 East African Community Regional Integration

The idea of formation of an East African Union can be traced to as early as 1948 though the first East African Community was founded in 1967. This initial East African Community collapsed in 1977 largely due to severe differences over personalities, ideology, and the sharing of integration benefits between leading players, (Khadiagala, 2009). The East African Community (EAC) was subsequently re-established in 2001. Unlike the more well-known economic agreements like the COMESA, SADC and ECOWAS, the EAC has now included political unity in its founding treaty (Reith & Boltz, 2011). According to The East African Community Secretariat the goal of the EAC is the widening and deepening of co-operation among the Partner States in among others, political, economic and social fields for their mutual benefit (EAC, 2012).

According to Kenya's trade policy, the country is committed to the progressive gradual reduction of tariff and non-tariff barriers to trade and in being a member of the regional trading blocs like EAC among others (GoK, 2010). Kenya's membership of the regional blocs East African Community and the Common Market for Eastern and Southern Africa is strategic in that it aims to accord Kenyan entrepreneurs access to the wider market for manufactured and semi-manufactured products. Most Kenyan exports to the East Africa region comprise of manufactured goods as opposed to primary products, thus enhancing diversification of Kenya's manufacturing base. Kenya's exports to EAC countries accounts for approximately 26% of total exports, which is a significant contribution to our economy (KNBS, 2013). This thus constitutes a major market segment that would be crucial for the survival of many Kenyan enterprises.

While the major multi-national corporations rely on global markets for their products, the Small and Medium Enterprises mainly focus on the local and regional markets.

These enterprises also rely heavily on local and regional sources of production inputs and resources for their operations. This is unlike the larger entities which may source from overseas or from their parent companies. The policies and laws guiding the progress of the East African community as a bloc is therefore of great significance to the SMEs operating in within Kisumu county due to the close proximity to Kenya's borders with the other EAC member states.

1.1.4 Small and Medium Enterprises in Kenya

Small and Medium Enterprises in Kenya are defined along various criteria, mainly in terms of the annual turnover levels and the size of workforce in their employ. The Kenya Revenue Authority defines SMEs as any business with an annual turnover exceeding KShs.5 million or U$D62,500. The Capital Markets Authority (CMA) of Kenya also defines SMEs on the basis of turnover as entities with an annual turnover of between Kshs 5million to Kshs 1billion and further that they have a staff workforce of between eleven to one hundred full time employees (CMA, 2011). According to the European Union recommendations, the turnover criterion and the staff headcount criterion must be used hand in hand in order to grasp the true scale and performance of an enterprise (EEC, 2003). According to the Kenya Association of Manufacturers, the other indicative aspects of these classes of enterprises are that they are small units in size, they are often family- owned, are highly specialised in a given business activity and they rely on low cost inputs in their operations (KAM, 2008).

Small and medium enterprises have played a significant role in the economic growth of many nations around the world and especially in Africa. In Kenya, the small and medium size enterprises employed 3.2 million jobs and accounted for 18% of the national GDP by the year 2003. About 25 percent of employment in Africa, outside agriculture, comes from the SME sector and SMEs contribute 40 percent of the Kenya's GDP. (Mwangi et al, 2013). This sector produced more than fifty percent of the new jobs created in the Kenya economy in the year 2005, and this trend has persisted over subsequent years to this date. This is therefore a very critical sector whose growth and success has great implications on the overall economic, political and social development of the country.

Owing to their high level of specialisation and the reliance on low-cost inputs, SMEs are more innovative. This is mainly because they offer recognition and property rights for creative staff than the larger corporations and MNEs. In addition, the possibility of sourcing their inputs, and labour at competitive prices would result in a significant improvement in their profitability and hence their long term survival.

1.1.5 Small and Medium size Enterprises in Kisumu County

Kisumu County's geographic location is reasonably close to Kenya's borders and this has continued to spur business interaction with nations in the great lakes region. The county of Kisumu spans about 2,407 square kilometres in area, a large part of which borders the lake Victoria shoreline and hosts Kisumu city, Kenya's third largest city. It encompasses a large geographic area representing seven constituencies in the national assembly of Kenya. Kisumu County is home to a large number of Small and Medium Enterprises which operate in about every sector of the county's economy. These include construction, retail, manufacturing, entertainment, food, agri-business and fish trade among others. Most of these enterprises are predominantly family-owned and managed directly by one or more members of the family. The majority of the Small and Medium enterprises in this county engage in purchase and resale of manufactured and semi processed good, sourced from within Kenya as well as outside the country. Interaction with neighbouring countries is aided by the close proximity of this county to the Kenya borders as well as the lake Victoria gateway. These factors have greatly aided the growth of SMEs in this region.

According to Okungu (2012), the leading challenge cited by SMEs in Kisumu county is competition. This indicates a robust economy with a vibrant and enterprising business community. The large number of non-governmental organisations based in this county also boosts SME growth through expenditure intensive projects. Kisumu County has an estimated population of 970,000 people (KNBS, 2010). More than one third of this population lives in Kisumu city giving impetus to the large SME population.

1.2 The Research Problem

In the modern world, the business and economic environment is rapidly changing. Business organisations must concern themselves with happenings in the operating environment both in their local economies as well as developments in the international scene. Strategic implication refers to the consequences of an event or occurrence that bears longterm significance on the performance or survival of an entity. Strategic implication identifies the strategy options that will become necessary for an organization to best respond to a change or occurrence in its environment for its long term success. The concept of strategic implication encompasses the effects or consequences resulting from a given event or decision and the requisite strategy choice that becomes necessary to ensure continued success and ultimate survival.

The managers of any entity then need to ensure timely and accurate response to these strategic implications. This is critical to avoid adverse effects or missed opportunities. Costs of non-response could be lost profits and cost incurred in reversing the loss. Businesses need to look beyond their local catchment areas and as much as small businesses remain local, they must think of the opportunities and challenges beyond their boundaries (Bowen et al, 2009). Firms must compete in a complex and challenging context that is being transformed by many factors from globalisation and uncertain changes to the growing use of information technology (DeNisi, 2003).

The decision by the administration of any state to join a regional trading bloc aims at accruing economic and other benefits to its citizens and business community. This arises in the form of providing an advantage in the availability of resources, and also in the form wider business opportunities to exploit. There will also arise challenges and threats that will need management decision to shield the entity from unfavourable exposure.

Small and Medium size enterprises face a significant level of uncertainty with regard to demand, prices, infrastructure, bureaucracy, unfavourable tax regimes and other such factors (Ishengoma, 2008). These are aspects against which the concept of regional integration would have a bearing through either lowering or increasing the exposure faced by these entities. The business community in Kisumu county bears close proximity to the borders of other East African economies. The EAC offers access to the markets and to inputs and resources from Tanzania, Uganda, Burundi, South Sudan and Rwanda. This would also invariably open up the local economy players to competition. The East African Community (EAC) has also prioritised the harmonisation of taxation regimes of its member states, to promote coordination of the taxation systems of the member states. These changes will affect the SMEs in Kisumu county in diverse ways.

It is understood that not all parties achieve the same degree of benefit from a regional trading bloc Trade policy invariably creates winners as well as losers (WTO, 2009).

Previous research in this sphere has been done by various scholars. Cornia (2011) undertook a study on the growth and inequalities resulting from economic integration among nations. This study found that certain nations recorded high growth in GDP rates while others experienced income inequalities and declining GDP. The focus of this study was on nations in Europe and America. Wilson (2011) studied the process and results of regional economic ties. He concluded that integration leads to mutual benefits in production sharing, employment and security. There seems to be a divergence of thought since, while Wilson (2011) suggests improved performance of businesses due to economic integration of countries, Cornia (2011) finds this improvement not automatic.

Anadi (2005) focused on the failures of the regional integration efforts of nations and the factors that lead to such failure. This study was also quite specifically targeted at the states in the western Africa region. This study established that this can be blamed on poor choices and lack of requisite resources to support ambitious plans. Leighton (2008) studied the impact on the small and medium enterprises' success of varying ownership and management structures. This study focused on how the characteristics of the owner-manager were likely to influence the success of an enterprise. She established that there is significant relationship between factors such as education, age, gender and experience and firm success. In yet another study, Campos (1997) studied the activities of small business enterprises with specific reference to their role in the transfer of technology across economies.

The studies and research undertaken did not address the implications of regional integration to the small and medium enterprises. They also did not lay their focus on the area of Kisumu County as this researcher intends to. This leaves a significant knowledge gap which this study sought to fill. This therefore called for a more purposeful and intensive research to determine if this country's membership and participation in the regional blocs in eastern Africa has resulted in any strategic implications for the Small and medium enterprises in the Kisumu County of Kenya. What are the strategic implications of the East African regional integration to the Small and Medium sized business enterprises in Kisumu County?

1.3 The Research Objectives

The objective of this study was to:-

i. Establish the strategic implications of the East African regional integration to the Small and Medium sized business enterprises operating in Kisumu County.

1.4 The Value of the study

The subject of regional integration is an area of great significance that has continued to generate many unanswered questions the world over. The findings of this research provide a well researched explanation of how Kenya's membership in the East African regional blocs is affecting the performance and operations of Small and Medium Enterprises in cities within the region. The findings of this research are especially relevant to researchers and scholars in this field in their duties to offer broader understanding in this area. It also offers a grounding foundation upon which further research can be undertaken will provide deeper insight and further widen the existing body of knowledge in this area.

A change in government policy invariably creates winners and losers with resultant strategic implications. This study provides a significantly useful guide to the policy makers in our country in their efforts to nurture entrepreneurship and promote trade and investment for the growth of the economy. The findings of this study have uncovered the true implications of the regional integration processes for business. Lawmakers in this country and the regional East African Legislative Assembly now have a reference point in formulating strategy for member states. It will guide our commercial attaches, envoys and government technocrats in negotiating and drafting bilateral and multilateral agreements between Kenya and other nations. Policy makers in the Kenyan government and other governments within the region as well as the county government of Kisumu and other counties will also find this research a critical input when formulating policies affecting Small and Medium Enterprises. A concerted effort is encouraged to further entrench the integration processes to derive the great benefit this study has identified.

Further, this research is of importance to investors and business community in form of ready information and tips on how to best take advantage of opportunities resulting from their nation’s international agreements and treaties, while hedging against any exposure therefrom. The results of this study confirm the view that organisations are an open system constantly affected by changes in their environment. This researcher has identified the relevant consequences of regional integration and the need for managers to be constantly in touch with the environment, and respond appropriately to the opportunities and threats arising. Managers and traders will find this study valuable when making choices on where and how best to invest their money for good returns. It will also guide traders in deciding whether to export or not, and what markets to target for their products. A continuous Strategic diagnosis by entities is recommended to assure timely reflection of policy and environmental developments.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter provides an overview of the existing literature works touching on this topic earlier done by other scholars. It discusses in brief the theories upon which the concept of regional integration is founded. This chapter will provide the conceptual framework of the study.

2.2 Theoretical Foundation

Various economists and scholars have made great strides in attempting to explain and improve the rationale behind the regional integration phenomenon. In this endeavour they formulated several theories that have become accepted to explain the rationale upon which regional integration is anchored. The theories discussed in this chapter are Neo-functionalism theory, the Customs Unions theory, Inter-governmentalism and the Functionalism theory.

The Neo-functionalism theory suggests that regional integration is driven by certain key tendencies which give impetus to the integration process, key among them being the spill-over effect of integration. It stated that cooperation in one sector of two or more economies will result in pressures which trigger cooperation and integration in those other sectors. Firms in particular nations achieve international success in distinct segments or industries (Porter, 1990). Additionally, benefits realised in the integrating sector will be apparent and thus will be an incentive to other sectors to join in. Through the spill-over effect, integration would deepen from economic to political and the result would be an integrated union of states (Rosamond, 2001). Eventually a regional bloc is formed.

The neo-functionalists also noted the effect of technocratic response. This stated that once nations initiate steps towards integration, the private organisations and multinational entities will step in and offer expertise as well as sponsor the integration process. Through the integration process as the level of cooperation strengthens there is a gradual shift of allegiance and recognition from the traditional states to supranational institutions that encompass beyond the borders. These institutions gain credence and recognition and thus obtaining ability to champion the integration process.

Viner's Customs Unions theory focused on identifying concrete criteria that could distinguish between the possible advantages and disadvantages of economic integration. The model suggests that there are clear advantages and disadvantages that push countries into integration. Viner’s analysis divided the possible effects of economic integration between trade creation and trade diversion. Trade creation is realized when two or more countries enter into a trade agreement, and trade shifts from a high-cost supplier member country to a low-cost supplier member country. Trade diversion occurs when imports are shifted from a low-cost supplier being a non-member country of the union to a high-cost supplier member country inside the union especially if common tariff agreed by the union protects the high cost supplier member country. According to Kreps (1950) the conclusion of Viner concerning customs union was negative since it argued that customs unions are likely to provide more economic harm than gains unless strict circumstances prevail.

Inter-governmentalism theory suggests that the process of and the need for integration among states is driven solely by the governments of the member states. It thus tends to contradict the other major theories of regional integration which place an emphasis on the role of non government supranational entities as the drivers of regional integration.

The proponents of inter-governmentalism opined that integration depends entirely on the policies and agreements and the consequent legislation agreed upon by the partner states. The suggestion is that regional integration will succeed if member countries put in place firm conditions to enhance the success. This theory contrasts the neo-functionalist emphasis of technocratic response. Evidence available seems to indicate an increased role and authority of the member states (Stefania, 2009). This is quite critical especially in the formative stages of the integration process.

The Functionalism theory stated that the tendency of a group of nations to cooperate and integrate arose from a need or necessity. Common economic interests create the need for international institutions and rules (Mitrany, 1966). It has also been stated that firms in particular nations achieve international success in distinct segments or industries (Porter, 1990). Regional integration therefore results when nations have a common need or goal which they can accomplish more easily together. The process of integration is founded on its promise of benefit to states and enterprise through removal of barriers to trade. This theory is relevant to this study because it suggests that the driving force behind integration is the expected benefit of participation to member states. This study seeks to research on the actual prevalence of this benefit to entrepreneurs in the selected setting. Varying explanations advanced to support this phenomenon identify commercial positioning as the main driving force behind regional integration. This strategic positioning benefit will accrue to government, investors, traders, citizens and other stakeholders in these economies. Nations will pursue integration efforts that promise accomplishment of certain goals, and to derive benefits mainly in the long term, which thus translate into strategic implications for the participating states. This theory offers relevant anchorage to this study and forms an important point of reference.

2.3 Regional Integration

According to Delux (2010), Regional integration is a stage that demonstrates the development of world economy and a more challenging phase in economic relations among countries. Regional integration is intended to achieve lower commodity prices and hence increased economic activity and productivity in the member states, resulting in improved welfare. According to the East Africa Community (EAC) treaty, the member states undertake to attain equitable distribution of benefits through a people centred and market driven cooperation (EAC, 1999). Integration results in welfare benefits occasioned by the wider availability and cheaper pricing of commodities and this makes Free trade superior to all other trade policies (Kibret, 2002). This benefit is realised by the citizens of the participating member states as well as the business community.

Nations enter into Regional Trade agreements in anticipation of realising various benefits and opportunities therefrom. For African nations the expected benefits have evolved over time from the political decolonisation of Africa to the current emphasis on socio-economic integration for accelerated growth and for a stronger bargaining base on the global front (Maruping, 2005).

According to Phiri (2007), Regional integration can foster cross-border value chains, ease the transfer of expertise and capital, lower the cost of doing business to the citizens, free trade and enlarge the market. Regional trading agreements will also result in trade creation, but also divert it from lower cost suppliers to higher cost suppliers within the Union (Thirlwall, 2000). The actual value of participating in the RTA depends on whether the benefits of trade creation exceed the costs of trade diversion. According to Gupta (2005), some doubt has been expressed regarding these gains accruing from the regional integration process. The actual data available does not confirm a high impact on intra-regional trade from the formation of regional trading agreements in Africa.

2.4 Levels of Regional Integration

Countries engage regional integration to reduce or remove barriers to trade and factor mobility (WTO, 2013). The level of integration achieved is gauged on the basis of the extent to which the member states have removed these barriers. Holden (2003) identifies four stages of economic integration. These stages are free trade agreements, customs union, common market and economic union in that order. According to Hodgetts (2006), these same levels have been identified as follows in order of successive progression starting from the most basic form. Each successive stage is characterised by deeper integration and further cessation of member independence.

The most basic form of integration is the Preferential Trade Area. This is a pact formed between two or more states to reduce the tariffs charged on certain specified goods traded between member states. The tariffs are not entirely removed and the member states operate a Rules of Origin (ROO) regime to distinguish between imports from member states and those from non-member states thus ensuring that only imports from member states take advantage of this tariff reduction. The member states face no restriction regarding the tariffs to charge on imports from non-partner states.

The next level is the Free Trade Area. In this form of integration, the member states agree to remove all duties and quotas on imports of certain specified goods from partner states, as per the agreed Rules of origin regime. Imports originating from outside the territories of the member states are subject to full duty as preferred by the individual importer country. A Free Trade Agreement can focus on few sectors and that ensures retention of national control to prevent exposure to harsher external competition.

The third level of regional integration is the Customs Union. Konishi, et al (2003) asserts that this stage sets in when two or more countries make agreements that essentially remove all restrictions on mutual trade. They then set up a common system of tariffs and import restrictions to non-members. Thus further integration is attained when the members of an FTA agree to implement a Common External Tariffs (CET) regime. This refers to common tariffs, regulations and measures applied on goods imported from non member states. This form of a Regional trading agreement incorporates common external tariffs and zero internal tariffs and is referred to as a Customs Union. A survey of the EAC indicates that certain significant barriers are yet to be removed (TMEA, 2013).

The Customs Union then graduates into the next level of regional integration which is a Common Market. This incorporates the aspects of a customs union and in addition free flow of factors of production among member states. These factors include labour, capital and expertise. The COMESA and EAC are at the level of common market, albeit with some aspects yet to be implemented. Schwarze (2006) states that a common market features free mobility of the key participants in the production process. Despite some existing barriers to free trade, the East African Community has certain institutions that are more advanced than the Customs union and Common market status such as the East African Legislative Assembly and the East Africa Court of Justice (Maruping, 2005).

The next level is the Economic Union. At this level of integration, the member states agree to a duty-free and quota-free trade in goods and services, free movement of factors of production and common external tariff (CET). In addition to these, the members pursue common monetary and fiscal policies which are managed centrally through supranational institutions. At this stage of integration, success can only be attained through a supranational framework and intergovernmentalism alone cannot work (WTO, 2013).

2.5 Strategic Implications of Regional Integration

Strategy means Long-term action plan for achieving a goal. Ansoff (1990) defined strategy as the product/market scope of an organization. A business organisation is an open system. According to Thompson and Strickland (1993), organisations are environment dependent and cannot exist without the environment. The events in the external environment are considered to be critical for success and hence making it important to understand industry and competitors. Strategy is the match of organisation's strengths with opportunities in its environment and using the strengths to confront threats and weaknesses. Johnson (2005) defined strategy as the direction and scope of an organisation over the long-term which achieves advantage for the organisation through its configuration of resources within a changing environment. Strategic implication points to the need for a strategy decision that arises as a result of an event.

Strategic implication is defined as the consequence of an event or occurrence that bears longterm significance on the performance or survival of an entity and therefore calls for a conscious choice or decision. It is either beneficial or harmful since it will present as negative or positive consequence. The essence of strategy is to address the implications of changes in the external and internal environment to the organization's plans, vision and hence resource deployment for maximum gain at least cost. Identifying the strategic implication of an occurrence for any entity or party will largely involve an analysis of the opportunities and threats resulting therefrom that are relevant for this party or entity. This will involve a study of the entity's Strengths and weaknesses that are relevant to capitalise on the resulting opportunities and threats, generally referred to as a SWOT analysis. Failure to do so leads to serious strategic problem characterized by maladjustment of organization and the demands of the external environment (Ansoff, 1990). According to Porter (1990), the value of formulating a competitive strategy is to relate the organization to its external environment. Strengths and weaknesses are internal factors which are within the control of organisation such as finances, skill and marketing. Opportunities and threats involve the external factors that are out of the organisation's control such technology, legislation and competition. Regional integration will entail a change in these factors faced by an enterprise.

Strategic implications are either beneficial or harmful to an organisation. Economic policy invariably creates winners and losers (WTO, 2013). The beneficial strategic implications are opportunities for the enterprise to take advantage of while the harmful strategic implications are threats that an enterprise needs to mitigate or shield against. Competition is regarded as the most significant threat that a business enterprise can encounter from its external environment (Balassa, 1975). Promotion of regional trade is regarded as providing an opportunity for African countries to address their major disadvantage in global competitiveness that results from the small size of their individual national economies. The East African regional integration has continued to present numerous opportunities as well as threats for the Small and medium enterprises. Every manager will need to recognise these implications since they can easily determine the profitability and even survival of the business enterprise. The business enterprise should create a strategic matrix of its strength to parry the threats while reaping from the ensuing opportunities (Grant, 1998).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the research design method that the researcher applied in the study, the unit of study, and how the unit of study was identified and selected. It also details the data collection method employed and how data was analysed to make it useful for logical decision making.

3.2 Research Design

This research employed a cross-sectional descriptive research approach. This approach is useful when collecting data on from a population that is not homogenous, to ensure data obtained is not skewed but is representative. This study focussed on entities operating in different economic sectors and also across the various parts of the county under study to be able to obtain data reflective of the entire economy. The research was designed to identify factual characteristics of the regional integration process, forms and rationale behind varying forms of regional trade agreements and to identify the actual implications accruing to enterprises therefrom. This was so as to give an assurance of an appropriate diversity of data is obtained to ensure the conclusions drawn are representative of the underlying population that is under study.

This research design was found to be useful because the researcher was targeting to collect detailed and current information to obtain an insight into the various forms and aspects of small and medium size enterprises operating in the county. This enabled the researcher to identify relevant trends and draw accurate conclusions regarding the concept under study.

3.3 Population of Study

The population of study comprised the small and medium size enterprises registered to do business within the county of Kisumu in Kenya. The number according to the Kenya National Chamber of Commerce and Industry listing of the active SMEs in Kisumu as at June 2014 stood at 903 enterprises. This was also corroborated by the Ministry of Industrialisation tally of registered SMEs. A list of these enterprises is enclosed as appendix II. This criterion of determination of the study population is reliable as it gives the number that are in active business.

3.4 Sampling

A sample was drawn from the above population for this study. The sample for the purpose of this study was obtained through a stratified random sampling approach. The strata were defined on the basis of the industry or sector that the enterprises operate in and the nature of their trade. In research practice, if a population from which a sample is to be drawn does not constitute a homogenous group then a researcher should apply stratified sampling to obtain a representative sample (Kothari, 2014).

According to Kothari (2014), the size of the sample is determined using the sampling formula as below:

$$n = \frac{z^2 * p * q * N}{e^2(N-1) + z^2 * p * q}$$

Where: n= sample size,

N= population size,

p= sample proportion

q= (1-p)

z = standard variate

e = margin of error.

$$n = \frac{1.96^2 * 0.05 * (1-0.05) * 903}{0.05^2 * (903-1) + 1.96^2 * 0.05 * 0.95}$$

$$= 67$$

This gives a minimum sample size of 67 respondents at a 95% confidence level. A total number of six strata were identified along the basis of the economic sector that the entities operate in. The strata were defined under hotel, consultancy, manufacturing, retail, agribusiness and construction sectors. Samples were thereafter drawn randomly from each of the strata giving a sample total of 67 enterprises.

3.5 Data Collection

Primary data was collected from the selected sample. The data obtained in this research was largely qualitative in nature. The data was collected using the self-administered questionnaire similar to Appendix I. The questionnaire was divided into four sections. Section I and II focused on capturing general information about the business enterprise and the manager or respondent providing the information. This information includes an estimation of annual sales, the book values of assets, the line of business, ownership, size of labour force and length of time in operation. The other sections aimed at drawing information about trade interaction with parties outside Kenya's borders, and the perception of the accomplishment of the intended purpose. Questions were mainly closed-ended, and items were scored upon using a Likert scale. Each of the respondents was required to indicate by a tick the level to which he or she agrees with the statement given for each of the variables.

To collect the data, a self administered questionnaire was delivered to the manager or proprietor of the identified SME by way of drop-and-pick-later method. This allowed the respondents some ample time to complete the questionnaire before handing it back within a week. Follow up was done by way of phone calls or personal visit especially in instances where response tended to take an inordinate duration. Research assistants were engaged to speed up the process.

3.6 Data Analysis

The data obtained from this research was largely quantitative in nature. The data was analysed by computing the frequencies, averages, the cumulative frequencies and tests of hypotheses. Using the average response for each variable per entity, observations of the dependent and independent variables were established and analysed. The factors for each variable were analyzed to determine which regional integration factors are perceived most important for business and thus identify the strategic implications of regional integration for SMEs in Kisumu County. The data was compiled and analysed using various computer based tools, mainly the Statistical Package for Social Sciences (SPSS) and Microsoft excel.

The researcher also employed content analysis on the qualitative data received and in response to open-ended questions. This enabled the researcher to pick out the responses of the SMEs in Kisumu County as regards the impact of the East African regional integration on their trading environment. Content analysis involves explanation of status of some phenomena or contents of data or responses. It allows a researcher to identify key concepts and lines of argument and has been successfully used by previous researchers such as Atheru (2007). The analysed data is presented and described with the aid of charts, tables, and figures.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis of data and discussion of the research findings, and outlines the findings based on the research objective. The objective of this research study was to identify the strategic implications of East African regional integration to the Small and Medium sized business enterprises operating in Kisumu County. The data was classified, tabulated and summarized using averages, percentages, descriptive measures and frequency distribution tables. Charts and tables were used for presentation of findings. A total of Sixty seven questionnaires were issued out. Of the issued questionnaires forty seven were returned. This indicates a response rate of 69% which the researcher deemed sufficient for further analysis. The response rates were as presented in Table 4.1.

Table 4.1 Response rate

Sector	Questionnaires	Response	Response rate
Hotel & catering	11	9	82%
Service & consultancy	11	6	55%
Manufact & auto	11	7	64%
Construction & hardware	11	8	73%
Fishing & Agribusiness	11	7	64%
Resale (bulk breaking)	12	10	83%
Total	67	47	69.9%

Source: Field Data (2014).

All the sectors were fairly well represented in the sample and the data collected and hence the findings thereupon were deemed representative of the underlying population.

4.2 Respondent Demographics

The respondent demographics refers to the description of the person providing the data with regard to the business entity. The aspects considered were the person’s rank in the entity and the duration in years worked with the said entity. This was aimed at rating the person's suitability and ability to provide data regarding the entity under study as shown in Table 4.2 below.

Table 4.2 Respondent demographics

Duration at the firm	Response	Proportion
0-2	6	13%
3-5	19	40%
6-8	12	26%
>8	10	21%
Total	47	100%

Source: Field Data (2014).

From the data in table 4.2, virtually all of the respondents had worked with the respective entities for three or more years. In addition, all the respondents were either proprietors or senior employees of the business entities being studied. Thus, the responses provided by the respondents had the benefit of good command, responsibility and understanding of the entity and the business environment as well as the specific issues being studied.

4.3 Profile of the organization

The profile of an organization gives the outline of an organization in terms of the period of existence, nature of trade, annual turnover and the number of employees. These give an assurance that the responding entity is relevant for the variables that the researcher intended to study. This also ensured that the data received was from firms that fall within the definition of Small and Medium Enterprises (SMEs) in Kisumu County which was the target group for this study.

4.3.1 Nature of Trade

SMEs span virtually all sectors of any economy. The sample strata were designed along the basis of the economic sector that the enterprises operate in. The sectors were carefully chosen to enable collection of representative and informative data for the study. A larger proportion (21%) of the respondent firms was engaged in sale and resale of commodities as show in Table 4.3.

Table 4.3 Sectoral strata

Sector	Response	Proportion
Commodity resale	10	21%
Service & consultancy	6	13%
Equipment & auto	7	15%
Construction & hardware	8	17%
Fishing & Agribusiness	7	15%
Hotel & catering	9	19%
Total	47	100%

Source: Field Data (2014).

This gave an assurance that the data collected was cross sectional and was representative of the different sectors in which SMEs operate. This reduced the risk of obtaining skewed data that would not be representative of the SME sector being studied. The data was thus collected from entities across all sectors and would be reliable to support decisions across the economy.

4.3.2 Duration of SME existence

It is noteworthy that the longevity of existence of the SME was perceived to provide greater insight and comparative perspectives of the phenomena under study as presented in Table 4.4 below.

Table 4.4 Duration of SME existence

Duration of Existence	Frequency	Percentage
0-2 Years	7	15%
3-5 Years	9	19%
6-8 Years	14	30%

9-10 Years	11	23%
over 10 Years	6	13%
TOTAL	47	100%

Source: Field Data (2014).

This indicates that about 85% of the responding enterprises have been in operation for over the last three years. This is the period when much emphasis had been placed on the aspects of business that this study sought to establish.

4.3.3 Size of the Enterprise

The two main criteria for classification of enterprises as SMEs is along the basis of the size of the workforce and the level of annual sales turnover of the business enterprise. The data collected from the respondent entities on these two criteria as is detailed below in Table 4.5.

Table 4.5 Sales Turnover

Annual Turnover	Frequency	Percentage	Cumulative percentage
0-5m	0	0%	0%
5-24m	24	51%	51%
24-60m	12	26%	77%
60-96	7	15%	91%
96-240	4	9%	100%
over 240m	0	0%	100%
TOTAL	47	100%	

Source: Field Data (2014).

The data presented in Table 4.5 indicates that all the respondents have an average sales turnover being above five million shillings per year. All of the respondents are SMEs as per the set threshold of sales turnover levels.

Table 4.6 Number of Employees

No of Employees	Frequency	Percentage	Cumulative percentage
1-5	0	0%	0%
6-10	7	15%	15%
11-30	18	38%	53%
31-50	12	26%	79%

51-70	10	21%	100%
over 70	0	0%	100%
TOTAL	47	100%	

Source: Field Data (2014).

From the data presented in Table 4.5 and Table 4.6, it is clear that 100% of all the respondents fall within the threshold for classification as SMEs for relevance in this study, with about 70% tending towards the Small enterprise segment. This is also in line with the description in chapter one of this study on.

4.3.4 Cross border trade

The objective of this section was to gauge the level of the enterprise's trade interaction with parties in the neighbouring states. The data collected was as per Table 4.7 below.

Table 4.7 Cross Border Trade

Form of contact	Frequency	Percentage
Trading in EAC countries	39	83%
Buying goods/services	31	66%
Selling goods / Services	17	36%
Hire of employees	0	0%

Source: Field Data (2014).

83% of the respondents reported to having some form of direct trade contact with the EAC countries either through sale or purchase. Zero (0%) respondents indicated to having any employees hired from nationals of the other EAC states. This result indicates that the data obtained was collected from entities that engage in trade across the EAC region and are thus the relevant target for this study.

4.4 The Strategic Implications of EAC Regional Integration

Data was collated and categorised to identify the strategic implications of the EAC Regional Integration process to the respondent SMEs. The concept of strategic implication encompasses the effects or consequences resulting from a given event or decision. These effects may be beneficial or they may be negative effects to a party that is either directly or indirectly concerned, be it an individual, organisation or a state. In broad, the strategic implications are the opportunities and the threats ensuing. The data was classified and analysed on the basis of implications through effect on a spectrum on the basis of Effect on cross-border trade, Effect on trade opportunities and Effect on profits and costs of trade. The strategic implications of regional integration are realised by the business enterprises through the effect it has on these aspects of trading environment.

4.4.1 Implications on Cross border trade

The following data was collected to rate how the accomplishment of trade related activities has changed in the advent of the East African Regional integration initiatives.

Table 4.8 Effect on cross border trade

		Much easier	slightly easier	No change	slightly difficult	Very difficult
Buying from an another country	Frequency	7	23	9	5	3
	percentage	15%	49%	19%	11%	6%
	cumulative	15%	64%	83%	94%	100%
Travelling across the border into Kenya	Frequency	23	11	2	5	6
	percentage	49%	23%	4%	11%	13%
	cumulative	49%	72%	77%	87%	100%

Making sales to a neigbouring country	Frequency	6	8	4	13	16
	percentage	13%	17%	9%	28%	34%
	cumulative	13%	30%	38%	66%	100%
Clearing at the border goods being exported from Kenya	Frequency	16	11	4	4	12
	percentage	34%	23%	9%	9%	26%
	cumulative	34%	57%	66%	74%	100%

Source: Field Data (2014).

From the data in Table 4.8, a large percentage of the respondents, approximately 70% indicated that they have found it easier to engage in trade across the borders of Kenya since the establishment of the East African Community initiative. They cited buying products from neighbouring countries (64%), cross border travel (72%) and clearance of goods (57%) as the areas where improved benefit is noted. The ease of making sales to other nations from Kenya was shown to have declined with only 30% of respondents indicating an improvement against 62% for a decline. This was blamed partly on bias and absence of state facilitation and guidance.

4.4.2 Implications through Trade opportunities

There is great expectation that the East African regional Integration initiatives that Kenya participates in ought to result in a wide array of economic opportunities for the business community. This researcher attempted to view the perception of the actual opportunities that accrue to the business entities under study.

Table 4.9 Effect through Trade opportunities

		Strongly agree	Agree	Not sure	Disagree	Strongly disagree
Wider variety of inputs/ stock	Frequency	21	12	1	10	3
	percentage	45%	26%	2%	21%	6%
	cumulative	45%	70%	72%	94%	100%
Cheaper inputs / stock	Frequency	16	14	7	4	6
	percentage	34%	30%	15%	9%	13%

	cumulative	34%	64%	79%	87%	100%
Wider Markets for products	Frequency	10	18	6	8	5
	percentage	21%	38%	13%	17%	11%
	cumulative	21%	60%	72%	89%	100%
Increased level of sales	Frequency	8	10	4	19	6
	percentage	17%	21%	9%	40%	13%
	cumulative	17%	38%	47%	87%	100%
Quality of inputs / stocks	Frequency	5	9	12	17	4
	percentage	11%	19%	26%	36%	9%
	cumulative	11%	30%	55%	91%	100%

Source: Field Data (2014).

The data in Table 4.9 indicates that the respondent enterprises have realised trade and business opportunities attributable to the integration initiative, specifically through wider variety of inputs and products (70%) and cheaper inputs and stocks (64%). The increase in levels of sales was found not to have risen as much due to factors of rising competition. An increase in sales levels was found in 38% of the enterprises.

4.4.3 Implications through Profits and cost of trade

Kenya's participation in regional integration initiatives gives rise to changes in the economic environment that businesses operate in. These changes inevitably have cost and profit implications for the various players in the economy.

Table 4.10 Effect on profits and cost of trade

		Strongly agree	Agree	Not sure	Disagree	Strongly disagree
Higher profits	Frequency	6	12	8	10	11
	percentage	13%	26%	17%	21%	23%
	cumulative	13%	38%	55%	77%	100%
Lower taxes	Frequency	4	20	7	11	5
	percentage	9%	43%	15%	23%	11%
	cumulative	9%	51%	66%	89%	100%
High	Frequency	26	7	3	7	4

competition	percentage	55%	15%	6%	15%	9%
	cumulative	55%	70%	77%	91%	100%
Lower cost of business	Frequency	11	12	3	14	7
	percentage	23%	26%	6%	30%	15%
	cumulative	23%	49%	55%	85%	100%

Source: Field Data (2014).

The findings as tabulated in table 4.10 indicate that the integration process has resulted in lower taxes for the business community (51%) and also lower cost of doing business (49%). However, the respondents seemed reluctant to indicate to making increased profits, with a response rate of 38%. The one sample t-test p-values as computed for each aspect are below the significance level indicating that the alternative hypothesis holds true, thus proving the strategic implications of regional integration under study.

4.5 Discussion

The role and goal of the state in business is to offer an enabling environment for business while protecting the interests of its citizenry. The Functionalism theory of integration states that to this end, states pursue Regional integration initiatives to achieve a common need or goal which they can accomplish more easily together. It has been stated that firms in particular nations achieve international success in distinct segments or industries (Porter, 1990). The process of integration is founded on its promise of benefit to states and enterprise through removal of barriers to trade. This is intended to promote enterprise and spur investment and economic growth. This can only be attained if the actual benefit is felt and acknowledged at the level of the individual business enterprise. Economic policy invariably creates winners and losers (WTO, 2013).The relationship between state policy and individual business success is seldom easily identifiable or quantifiable. This is measured through the strategic implications that any such policy presents for the business enterprise in question.

The results of this research indicate the prevalence of significant strategic implications of regional integration initiatives to the Small and medium enterprises in the area of study. The results prove the alternative hypothesis that the regional integration initiatives result in strategic implications for the small and medium enterprises in Kisumu county. These implications exhibit through three broad areas namely trade restrictions, business opportunities and costs of trade. The implications identified in this study are reduced restrictions on cross-border trade and travel, wider variety of products and markets, and increased competition from new products and players. The study also identified reduced taxes and costs of doing business pursuant to the integration measures studied. Strategic implications may be beneficial through opportunities or they can present threats or challenges for the entities. Ndirangu (2003) noted that it is important for managers to recognise emerging opportunities to an organization as a result of changes in its external environment. This study indicates a need for SMEs and other entities to venture into cross border trade within the region in light of the implications identified. Investors and entrepreneurs need to position themselves strategically to take advantage of the implications identified by this study and to ensure minimal exposure to the resultant threats in their business.

The East African community secretariat identifies trade liberalisation and development as a key component of its Regional integration strategy (EAC, 2006). The facilitation of trade and improvement of business environment forms a key pillar of the regional integration initiatives in all continents across the world. This is achieved through the reduction and ultimate elimination of tariffs and other barriers to trade. This is expected to result in reduced cost of business and thereby stimulate investment and economic growth. The results of this study concur with this perspective in that it identifies reduced taxes and costs of business as among the strategic implications of regional integration to enterprises.

For any economy, a healthy SME sector is an indication of economic growth and stability since SMEs are a key pillar especially for growing economies. This study has identified the strategic implications of EAC regional integration to SMEs in Kisumu County. This result is vital for shaping the trade policy for the county government of Kisumu and the national government on matters regarding SMEs and enterprise in general. The strategic implications identified are largely beneficial while the negative implications are minimal and manageable. This indicates that there is a need for the authorities and policy makers to aggressively pursue integration initiatives within the region and to channel more resources to tap these benefits.

Regional integration can foster cross-border value chains, ease the transfer of expertise and capital, lower the cost of doing business to the citizens, free trade and enlarge the market (Phiri, 2007). This perspective is reinforced by the results of this study which indicated that the enterprises in the region of study had witnessed benefited from wider markets and decreasing costs of doing business as a result of the regional integration initiatives pursued by the government. These are beneficial implications of the regional integration process which present strong grounds in support of the process.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the research findings as detailed in the preceding chapter and the conclusions derived there from. The researcher sought to identify the strategic implications that the East African regional integration initiative bears on the Small and Medium sized business enterprises in Kisumu County. This chapter outlines the strategic implications that were identified by the enterprises to actually impact on their business.

This chapter also outlines recommendations along the basis of the research findings that can be adopted by Small and Medium size enterprises (SMEs) in this and other counties in view of the strategic implications arising from the Kenya's participation in Regional Integration initiatives. Limitations that affected the study are also outlined, together with recommendations for further research in similar and related fields in furtherance of this study.

5.2 Summary of Findings

This research project studied and evaluated the strategic implications of East African regional integration initiatives to Small and Medium enterprises in Kisumu County. The research found that trade activities by the studied enterprises have become easier and more convenient since the reintroduction of the integration initiatives that this researcher was focusing on. Purchasing of items from the other member states, the corresponding cross border travel and the border clearance process of goods purchased now costs less in taxes and levies, as well as time as the red tape in human and goods clearance has significantly reduced. In spite of the existence of an unmet market for Kenyan products, the rise in exportation to EAC member states by traders in the county of Kisumu has not been significant. This is explained as resulting from consumers' loyalty to products from their own countries as well as edging out of SMEs by corporations exporting similar products. They are able to outcompete the smaller enterprises due to their economies of scale and brand recognition among other factors.

The research identified the following as the main strategic implications having a significant bearing on the enterprises studied. Strategic implications are either beneficial implications creating opportunities that can be explored for financial or non-financial gain. They can also be harmful implications that pose threats or challenges that entities must address to avoid loss and ensure business survival. This research identified the following as the strategic implications.

The availability of a wider variety of inputs and products either for use as inputs or for resale. This is due to the reduction in barriers to trade and easier access by traders to sources outside their country's borders. This is also closely linked to the availability of cheaper inputs and stocks that would also result in benefit for the enterprises studied. Improved quality of products and inputs has also resulted from the integration process under study. This is due to the availability in the market of broader competing products for buyers to choose from. Local producers are forced to maintain high standards as set by the other available alternatives and this reduces instances of compromised quality.

Lower levels of taxes and levies and other costs of doing business have resulted in significant benefit for the class of business enterprises that was studied in this research.

These costs would include expenditure on items such as travel and communication, haulage, logistics and services. Several respondents identified the presence of Kenyan bank branches in other countries as of great benefit to doing business in the region. This has greatly reduced the costs of banking while removing the elements of insecurity and uncertainty. All these would mean greater benefit and opportunity for the trader.

Through the East African regional integration initiatives, local enterprises in the county of Kisumu have benefitted from access to a broader market for their products and wares. There is ease of accessing the neighbouring countries and flow of information on demand and supply patterns in those markets. However, a large number of the Small and Medium Enterprises (SMEs) in this area of focus for this study are more interested in sourcing of inputs and stocks rather than accessing the markets in the other regional member states.

The process of integration is also perceived to have contributed to very stiff competition in the local market in the region under study for this research. The relative ease of access to the local market for goods and products from the neighbouring states in the regional bloc has resulted in stiff competition between the entrepreneurs in this area. This is also due to the close proximity of the region to the country's borders with the other member states. This aspect would also partly explain the sluggish improvement in profit and sales levels of the sampled enterprises in spite of the noted enabling factors and a conducive environment for trade.

5.3 Conclusion

From the research findings, the beneficial strategic implications identified were availability of wider variety of stocks and inputs, cheaper stocks and inputs, reduced cross border processes redtape, quality standards benchmarking and lower taxes and cost of sales. The negative implications noted were increased stiff competition in the market leading to less than commensurate rise in levels of sales volumes. These strategic implications have significant bearing on the success and survival of the entities studied as well as other similar enterprises within and even beyond the region of the study.

States and governments participate in integration initiatives with the objective of reaping economic and socio-economic benefit for their citizens and investors in their economies. This is postulated in the Functionalism theory of integration which states that nations engage in regional integration due to a need or goal which they can accomplish more easily together (Rosamond, 2000). Integration serves a functional purpose. This functional purpose is realised through the strategic implications that arise there from for the states and other stakeholders in the economy. This study confirms the perception that the Kenya's participation in process of regional integration initiatives is beneficial for business and by extension the economy as a whole. It should therefore be supported and encouraged to maximise the benefits for the Small and Medium Enterprises and other stakeholders in this economy and this will serve as an investment incentive.

The authorities and the enterprises will need to jointly design strategies to counter the impact of the negative implications identified by this study. This will be achieved through appropriate policy to foster enterprise and investment while the traders implement measures to be more competitive in the wake of changing market dynamics.

Trade facilitation and improvement of business environment forms a key pillar of the regional integration strategies in all continents across the world. This is achieved through the reduction and ultimate elimination of tariffs and other barriers to trade. This is expected to result in reduced cost of business and thereby stimulate investment and economic growth (Mutharika, 1972). The results of this study concur with this perspective in that it identifies reduced taxes and costs of business as among the strategic implications of regional integration to enterprises. This is encouraging for business entities and investors in the region studied as well as other areas and sectors in which the same is easily applicable.

5.4 Recommendations for Policy and Practice

The findings of this study firmly confirm the benefit and relevance of the regional integration initiatives to the business entities in the Kenyan economy. The implications identified by this study bear great significance to the success and long term survival of the SMEs in this county and the nation as a whole. This study has established that the integration process is quite beneficial for business and hence the economy. It is therefore recommended that momentum on the process be maintained to attain greater level of regional integration and confer even greater gain to the investors in this economy. The state ought to pursue these integration initiatives to the envisaged ultimate goal of an economic union.

The managers of Small and Medium Enterprises need to design strategies to address the strategic implications identified. This will be through taking advantage of the beneficial implications while shielding themselves from the impact of the negative implications identified. SMEs need to take advantage of the widening market for their products and the improved trading environment as well as the ensuing business opportunities. This coupled with the reducing tax levels will assure profitability for existing and upcoming entrepreneurs in the economy.

The local enterprises in the county of Kisumu as well as other areas should adopt strategies to be more competitive in the face of growing competition from imported products from the region. This can be achieved through innovations, branding, product differentiation or reasonable price reductions. Public and private sector participation and assistance in this would be fruitful. There is need for the Kenya government to facilitate local enterprises to access the markets and to make sales in those other states more easily. This may be achieved through Kenya's embassies and commercial attaches in those countries to enable the traders to tap into the yet unsatisfied demand for their products in the region. It would also enable the reach deeper into those countries.

5.5 Limitations of the Study

The researcher conceptualised the prevalence of the strategic implications evenly across the sectors. The occurrence of the strategic implications identified in this research may not necessarily guarantee that each enterprise will actually enjoy benefit attributed to it and similar entities may encounter different circumstances from the same situation. The response ratings on these implications were not absolute meaning that some enterprises might be missing out on the benefits identified. This limitation can be managed by conducting an industry focused research to draw industry-specific findings.

It was quite apparent that a few respondents were cautious to indicate high profitability of their enterprises, and instead chose to state that the integration initiatives had not led to high profitability. These are instances where the findings of the study may have been subjectively skewed on that one parameter. In general humans are always reluctant to announce their good tidings.

This study was undertaken under certain factors some of which that took great effort to surmount. Time was a major constraint in this research process while some respondents kept the questionnaires for too long before filling and handing them back to the researcher. This researcher's patience was at times tested to great limits. A more inclusive research would have been possible in a time frame of about two or more years to reach a broader sample and measure even more variables.

5.6 Suggestions for Further Research

From the research findings, it is apparent that some enterprises may be benefitting greatly from the integration efforts, while others suffer adverse effect from the same integration initiatives. This study focussed on the Small and Medium enterprises and the findings are likely to be largely dissimilar for larger entities and corporations. The researcher recommends that further research be undertaken to zero in on the specific segments or sectors to determine exactly how each is affected by the phenomena under study.

This research was confined to a small geographical area of Kisumu County. This is also an area with unique factors in regard to trade within the region as outlined in chapter one. It would be important to undertake similar study on the enterprises in other regions of this country to understand if they also face the same strategic implications from Kenya's participation in the regional integration initiatives that this study focused on.

Finally, a more incisive research may be undertaken on a larger budget and greater allowance for time. This will allow for a more inclusive sample to be studied, to collect wider data and draw more conclusive results.

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Appendix I: Questionnaire

Dear Sir / Madam,

You are kindly requested to participate by filling the questionnaire below. The information you provide will be used only for purposes of this study and will be handled in high confidentiality.

Thank you.

SECTION A: RESPONDENT DEMOGRAPHICS

1. Name (**Optional**)…………………………..…………..

2. What is your position in this organization?……………..

3. How long have you been in this organization?

    0-2 Years [ ]
    3-5 Years [ ]
    6-8 Years [ ]
    Over 8 Years [ ]

SECTION B: PROFILE OF THE BUSINESS

1. What is the main activity of your business?

2. What sector does your business operate in?...............

3. What is the age of this business enterprise?

    0-2 Years [ ]
    3-5 Years [ ]
    6-8 Years [ ]
    9-10 Years [ ]
    Over 10 Years [ ]

3. What is the total number of employees in your business enterprise?

1-5 [ ]
6-10 [ ]
11-30 [ ]
31-50 [ ]
51-70 [ ]
More than 70 [ ]

4. Please give an estimate of your average sales turnover per Month ?

Kshs 0-400,000 [ ]
Kshs 400,000-1m [ ]
Kshs 1.0m-2.0m [ ]
Kshs 2.0m-5.0m [ ]
Kshs 5.0m-8.0m [ ]
Kshs 8.0m-20.0m [ ]
Above Kshs 20.0m [ ]

SECTION C: CROSS BORDER TRADE

1. Does your business interact with traders from other countries in this region?

Yes [ ] No [ ]

If yes, please state which countries……………………………………….

2. Does your business have any clients or customers in other countries in this region?

Yes [ ] No [ ]

If yes, please state which countries……………………………………….

3. How would you describe your trade with persons from other countries?

Buying of inputs/raw materials [ ]
Buying of goods for resale [ ]
Selling of goods [ ]
Selling of a service [ ]

4. Does your enterprise have any employees sourced from other countries in this region?

Yes [ ] No [ ]

5. How often do your buy from/ sell to a neighbouring country? (Please tick one)

Daily [ ] Weekly [ ] Monthly [ ] Quarterly [ ] Other [ ]

If Other, please indicate how often……………………………

SECTION D: THE STRATEGIC IMPLICATIONS

1. Please give your opinion of how performing the following activity has changed over the last five years.

		Much easier 1	slightly easier 2	No change 3	slightly difficult 4	Very difficult 5
1	Buying from an another country					
2	Travelling across the border <u>into</u> Kenya					
3	Bringing goods into Kenya from another country					
4	Making sales to a neigbouring country					
5	Travelling across the border <u>from</u> Kenya					
6	Clearing at the border goods being exported from Kenya to another country					

2. Do you believe that the East African community initiative has brought the following benefits to your business?

		Strongly agree 1	Agree 2	Not sure 3	Disagree 4	Strongly disagree 5
1	Wider variety of inputs/ stock					
2	Cheaper inputs / stock					
3	Selling to other countries					
4	Increased level of sales					
5	Lower taxes					
6	Higher profits					

3. Do you believe that the East African community initiative has brought the following disadvantages to your business?

		Strongly agree 1	Agree 2	Not sure 3	Disagree 4	Strongly disagree 5
1	High competition					
2	Low quality of inputs / stocks					
3	Lower levels of sales					
4	Reduced profits					

4. How have the following goals of the East African community (EAC) affected the performance of your business?

		Great benefit 1	slight Benefit 2	No effect 3	Slight damage 4	Great damage 5
1	Easier movement of goods across the border from EAC countries					
2	Wider markets for our products					
3	Easier entry of people into kenya from EAC countries					
4	Easier movement of people from kenya into the EAC countries					
5	Lower tax on importing from the EAC					
6	Lower tax on sales to EAC countries					

5. In your opinion, is the East African community process beneficial to business?
Yes [ ] No [ ]

THANK YOU !!