THE INFLUENCE OF POLITICAL RISK FACTORS ON THE INTERNATIONALIZATION DECISIONS OF HORTICULTURAL EXPORTING FIRMS IN NAIROBI.

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Declaration

This research proposal is my original work and has not been presented for examination in any other university.

Signed .... Date..................................

Guracha Adi Bidu

D61/P/8410/04

This project is being submitted for examination with my approval as the university supervisor

Signed .... Date ....

Dr. John Yabs

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Dedication

This work is dedicated to my wife Halima Haro for being my daily inspiration and for believing in my capabilities and to my father for helping me to always understand the value of hard work.

Acknowledgement

I would like to thank the Almighty God through whose grace I have come to the completion of this programme.

My very sincere gratitude to all who contributed immensely in one way or another to the completion of this research project and entire MBA course. My special gratitude goes to my project Supervisor Dr. John Yabs of University of Nairobi, for his guidance and advice throughout this project.

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I owe my appreciation to all those who took time to answer my questionnaires, thus making it possible for me to complete my project.

God bless you all.

Abstract

The internationalization of firms has been studied extensively. Political risk and its analysis have changed over the last few decades. According to a study by Meyer (2003, p 223), "Political risk has been a major concern of international business scholars up to the 1970s, yet this line of research has become rather quiet in recent years. Maybe, businesses found the world rather predictable between 'Iran 1979' and 'Indonesia 1997.' Yet, the end of the cold war has not eliminated political risk." Another study by Lettice and Jan-Erik (2004) on small firms' internationalization for development in Tanzania found out that as barriers to globalization continue to fade, while powerful internationalization of production and marketing continue to thrive all over the globe. African businesses should realize that competing globally is not an option, but an economic imperative. However, the political risk assessment in the internationalization decisions of horticultural exporting firms, especially from a developing country perspective, has received little attention in academic inquiry. The primary purpose of this study was to identify salient political risk factors that influence export decisions and the internationalization decisions of horticultural exporting firms in Nairobi and to evaluate the relative importance of political risk factors inherent in the internationalization decisions of horticultural exporting firms in Nairobi.

The study used both Primary and Secondary data. Structured questionnaire consisting of both open-ended and closed ended questions were used. Pertinent data were collected from the top-level management of the Horticultural firms in Nairobi at their headquarters. The Horticultural firms targeted officials for interviewing were the head of marketing. The response rate was 62.5%. The data was analyzed using descriptive statistics.

The open-ended and closed ended questionnaires enabled the respondents to give as much information as possible without any form of limitation. The researcher designed the Questionnaire on the basis of the objective of the research and the study's literature review. The primary data was supplemented by secondary data from the existing records of Ministry of Agriculture, Trade, Journals and Internal circulars.

The study findings established that the most important political risk factors such as; Degree of red tape in host country government (e.g., excessive administrative layers and corruption); Capital outflow restrictions (e.g., restrictions on repatriation of funds and currency convertibility); Marketing capability; Technological supportiveness and Legal protection whereas: Attitude of host country toward foreign business; Stability of foreign exchange rates and relative prices in host country (e.g., unexpected currency devaluation, inflation); Extent of regional and international cooperation of host country (e.g., border disputes, political refugees, position on international issues) were seen as the major concern for the decision making by participating horticultural firms when internationalizing their products.

The findings also revealed that the participating firms had a lot of concern in the area of Political risk factors that incorporated both the economic and political dimensions and the internal (domestic) and external (foreign) dimensions. The two economic and political dimensions factors were rated highly an indication of how influential they are to the operation of the business internationally.

CHAPTER ONE

INTRODUCTION

1.1 Background

Formal political risk analysis has received attention only since the 1960s when U.S. multinational enterprises experienced significant losses due to expropriations (Overholt, 1982). Consequently, conceptual studies on political risk definitions focus on foreign direct investments (FDI) ignoring other forms of international involvement such as exporting, outsourcing, licensing, and franchising (Minor, 2003). Even though practitioners consider political risk to be important for other international activities (Price, 2005; Short, 2005), empirical studies take the same approach (Mortanges and Allers, 1996).

Since political risk can take many different forms, different facets of political risk need to be assessed depending on the type of a firm's international involvement and the firm's stage of internationalization. Political risk is a highly relevant factor during the pre entry, entry, and post entry stages of the "process" model of internationalization (Yip, Biscarri, and Monti, 2000). The integration of international business management, strategic planning, market research, and market selection all consider motivations such as market potential and risk assessment as part of the pre entry process; while planning for contingencies and post entry strategic commitment both look at strategic modality shifts from export to contractual agreement or foreign direct investment (FDI), and vice versa, as part of the post entry process. Focusing on less important facets of political risk may lead to poor decisions.

It is generally assumed that less capital is at stake for exporting and therefore political risk is of lesser importance to exporters (Stapenhurst, 1992). However, the loss of expected future revenues often significantly exceeds the value of the expropriated assets (Gillespie, 1989). While exporters may not lose any facilities, they face non payments on goods already shipped and loss of expected future sales. Exporters may also be subject to increasing political risk over time due to the emergence of the World Trade Organization, which obligates member countries to significantly reduce tariff barriers.

1.1.1 Political Risk

There is no generally accepted definition of political risk since there is a lack of agreement on its conceptual and operational domain (de la Torre and Neckar, 1988; Fitzpatrick, 1983; Howell, 2001; Kobrin, 1979; Monti Belkaoui and Riahi-Belkaoui, 1998; Sethi and Luther, 1986; Simon, 1982). Kobrin distinguishes between two clusters of political risk definitions: those that define political risk in terms of government interference with business operations and those that define political risk in terms of events, such as creeping expropriation, devaluation and revaluation, foreign exchange controls, and foreign wars (Monti-Belkaoui and Riahi-Belkaoui, 1998).

It is apparent that most political risk definitions focus on the possibility of losses rather than creation of new opportunities and that prior work only considered FDI since much of international business (IB) research concerns the spread of the multinational enterprise (MNE) (Alon and Martin, 1998; de la Torre and Neckar, 1988; Howell, 1998; Kobrin, 1979; Robock, 1971; Simon, 1982). While IB research primarily examines MNE behaviour, it has unfortunately not given adequate attention to export behaviour of firms. Given that international trade and marketing is a subset of international business and that many MNEs are also exporters, it is within the legitimate domain of IB research to study MNE as well as export firm behaviour

The political risk definition that encompasses the various types of international business activities such as exporting and FDI that will capture all relevant facets of political risk as well as account for the various types of international business activities, was provided by de la Torre and Neckar (1988; p. 224) that political risk is the probability distribution that an actual or opportunity loss will occur due to the exposure of firms involved in international business activities to a set of contingencies that range from the total seizure of corporate assets without compensation to the unprovoked interference of external agents, with or without governmental sanction, with the normal operations and performance expected from the firm. These external agents cause threat and disruption outside the control of legitimate governments and may include nationalistic buyers, suppliers, employees, and other key stakeholders.

1.1.2 The Internationalization Process

Internationalization is defined as "the process of adapting a firm's operations (strategy, structure, resource, etc.) to international environments" (Calof and Beamish 1995, p 116) and includes both forward internationalization, such as going from exporting to FDI (Johanson and Vahlne 1977, 1990); and backward internationalization, such as going from FDI to exporting (Calof and Beamish, 1995). Exporting and FDI represent two important entry modes, among others, in the internationalization process of firms preparing to serve a foreign market

The choice between exporting and FDI in the context of political risk can best be explained by Dunning's 1998 OLI paradigm. The OLI paradigm is a multi theoretical approach that encompasses the resource advantage theory (ownership advantage), international trade theory (location advantage), and transaction cost theory (internalization advantage) Dunning's eclectic theory argues that successful FDI must contain ownership advantage, location advantage, and internalization advantage. Johanson and Vahlne's (1977, 1990) theory of internationalization postulates that a firm with limited market knowledge will choose to export, since lack of knowledge about a foreign market creates uncertainty and risk.

A firm begins to internationalize its operations by pursuing the following stages of development: first, no regular export, secondly, export via agents, thirdly, sales subsidiaries, and lastly, overseas production. At the core of the stages theory of internationalization is the organizational learning process, whereby increased market knowledge leads to increased market commitment. At lower levels of internationalization (e.g., exporting), firms move toward markets that are similar in terms of geographic, psychic, and cultural distance, with minor potential for financial and political risk (Gomes and Ramaswamy, 1999). As the developmental process continues, a firm enhances its market knowledge: especially experiential knowledge and firm-specific skills. Once the firm has accumulated significant experiential market knowledge, it will commit more resources and engage in higher levels of internationalization, such as FDI. Thus, firms are typically predicted to move sequentially through different stages as they develop their international activities (Burton and Schlegelmilch, 1987; Johanson and Vahlne, 1990)

1.1.3 Political Risk Assessment and the Internationalization Process

Political risk can be addressed by transaction cost analysis in which firms weigh in the costs and benefits of political governance structures and policies, and the likely political hazards in the host country (Henisz and Williamson, 1999). When political hazards are high, firms choosing to internalize (and thus reduce) transaction risk will prefer either exporting or FDI over contractual agreements. However, the choice between export and FDI depends upon other host country factors, including market potential, competitive risk, and government policy, as well as firm-specific know-how and global strategic factors (Malhotra, Agarwal, and Ulgado, 2003). For instance, in a high risk–high return market, despite high political risk, firms may opt for FDI modality and negotiate a specialized political governance structure akin to hierarchical organization, such as forming a regulatory agency or public-private partnership that will ensure specific safeguards (Henisz and Zelner, 2004).

Political risk can be viewed as part of the broader market (or country) risk factors that have been found missing from the stages model of internationalization. Including political risk challenges in the stages models does not require an alteration of its core concept, that is, a firm's ability to cope with uncertainty and experiential learning; rather it compliments a multifaceted conceptualization of market knowledge and market risk (Delios and Henisz, 2003). Evidence suggests that while firms generally move in the direction of increasing resources toward foreign markets, they also move in the reverse direction for strategic reasons (Benito and Welch, 1997; Calof and Beamish, 1995). Based on organization learning theory, as firms expand over time their existing structures and systems will fail to fit the new global environment. It is here that firms need to reconfigure internal structures, systems, and processes to fit the new market environment (Ruigrok and Wagner, 2003; Sullivan, 1994).

Firms with multinational FDI operations sometimes engage in de-internationalization triggered by foreign market conditions, foreign government actions, or simply for strategic repositioning. From a transaction-cost perspective, significant changes in the factors that influence the initial choice of operation modes are likely to lead to corrective action (Teece, 1986)

1.1.4 The Horticultural Exporting Firms in Nairobi

The horticulture sector, which is also labour intensive, is a unique sector in Kenya since foreign investors have significantly contributed to output and employment growth. There were about 135,000 people employed in the sector as of 2003, compared with a total of 260,000 formal private sector agriculture and fishery workers. These positive developments have been offset somewhat by the loss of employment in traditional sectors of foreign investment in the manufacture of consumer and other goods. Manufacturing employment suffered a net decline between 1998 and 2001, before increasing in 2002 and 2003.

Linkages with foreign investors have been most significant between agro processing investors and the large domestic agricultural sector. Out growers are used extensively by horticulture packagers. It is estimated that purchases by leading exporters from smallholders account for 27 percent of exported fresh vegetables and 85 percent of exported fresh fruit. Homegrown, the country's leading horticultural producer, for example, uses around 1,000 out growers. The company operates a support policy for these out growers providing them with the seed, technical expertise and training necessary to produce a high quality product. Cotton lint production has declined from a high of meeting 100 percent of demand in 1984 (70,000 bales) to 17 percent in 2002 (20,000 bales), as local products cannot compete with cheaper imported lint.

As a small economy, Kenya's development must be underpinned by trade. It is relatively open already, with total trade in goods and services (exports and imports) representing around 60 percent of GDP over the past few years. Merchandise exports are dominated by a few key goods and markets, with FDI playing an essential role in the more dynamic sectors of horticulture and garments.

A notable fact in Kenya is the continuing importance of regional trade. Africa accounted for approximately 43 percent of the country's merchandise exports in 2003, with Europe accounting for 29 percent. Exports to COMESA were 73 percent of total exports to Africa. Within Africa, the largest trading partners were the EAC member countries, Tanzania and Uganda. Tanzania was the destination for 17 percent of Kenyan exports to Africa and Uganda for 36 percent.

Exports to Africa are mainly manufactured consumer goods, in contrast to mainly agricultural produce to Europe and garments to the U.S. Kenya is among the countries that have taken most advantage of AGOA to expand apparel exports to the U.S., together with Lesotho, Madagascar and Swaziland. South Africa and Mauritius have also gained from AGOA by increasing their apparel exports to the U.S., but to a smaller extent.

Homegrown is Kenya's largest horticultural exporter. It produced 13,000 tonnes of the country's 133,000 tonnes of horticultural exports in 2003. The company has invested $52 million to date in the country and employs 6,000 people. It has an annual turnover in excess of $40 million. The company is owned by Flamingo Holdings, a U.K. based vertically integrated horticultural business involved in the growing, processing, packaging, marketing and distribution of cut flowers and fresh vegetables. In addition to Kenya, the group also sources produces from Zimbabwe, South Africa, Guatemala, Thailand, Spain and the Netherlands and now has a worldwide annual turnover of $250 million.

1.2 Statement of the Problem

While tariff barriers have gone down, many non tariff barriers have been increased. Also, outright expropriations are less common today than they were four decades ago (Minor, 2003). Firms are now more concerned about other aspects of political risk such as exchange controls, changes in taxation, political and social unrest, and contract repudiation (Molano, 2001; Pahud de Mortanges and Allers, 1996). Such issues are critical to the nature of international business management arrangements to be used by horticultural exporting firms in Nairobi; hence the need to conduct the study on the political risk assessment in the internationalization decisions of horticultural exporting firms in Nairobi.

The internationalization of firms has been studied extensively. Political risk and its analysis have changed over the last few decades. According to a study by Meyer (2003; p. 223), "Political risk has been a major concern of international business scholars up to the 1970s, yet this line of research has become rather quiet in recent years. Maybe, businesses found the world rather predictable between 'Iran 1979' and 'Indonesia 1997.' Yet, the end of the cold war has not eliminated political risk." Another study by Lettice and Jan-Erik (2004) on small firms' internationalization for development in Tanzania found out that as barriers to globalization continue to fade, while powerful internationalization of production and marketing continue to thrive all over the globe, African businesses should realize that competing globally is not an option, but an economic imperative. They concluded that this trend is deemed to create an extra-ordinary competitive environment for developing countries, as they do not appear to be ready to face the challenges and opportunities that globalization currently present. The danger of economic and social marginalization is therefore obvious.

However, the political risk assessment in the internationalization decisions of horticultural exporting firms, especially from a developing country perspective, has received little attention in academic inquiry. The critical question that comes to mind in the Nairobi study is: How do the Nairobi horticultural exporting firms assess the political risk in their internationalization decisions.

This study will therefore be in twofold: first, to identify salient political risk factors that influence export decisions and the internationalization decisions of horticultural exporting firms in Nairobi; second, to evaluate the relative importance of political risk factors inherent in the internationalization decisions of horticultural exporting firms in Nairobi

1.3 Research Objectives

The research objectives of this study will be:

i. To identify salient political risk factors that influence export decisions and the internationalization decisions of horticultural exporting firms in Nairobi;

ii. To evaluate the relative importance of political risk factors inherent in the internationalization decisions of horticultural exporting firms in Nairobi.

1.4 Justification of the Study

This study is necessitated by two facts: first, the danger of economic and social marginalization is obvious if the horticultural firms do not assess the political risk in their internationalization venture since this is clearly manifested in the poor export performance of most African countries, which includes Kenya. Secondly, owing the fact that horticulture has become the country's main agricultural export, eclipsing tea and coffee. The export boom in flower and vegetables has been dominated by the production of foreign affiliates. Horticulture exports have grown rapidly in recent years, exceeding coffee exports in 1999 and tea in 2003. Cut flowers represent the largest share of volume (46 %), followed by fruits (37 %) and vegetables (17%). Sales are in most part to Europe, accounting for 95 percent of fresh produce exports. Kenya now accounts for 25 percent of European flower imports from non-EU countries, exceeding significantly the share of the next two largest suppliers, Colombia (17 %) and Israel (16 %). Hence the need to document the political risk assessment in the internationalization decisions of horticultural exporting firms in Nairobi.

1.5 Significance of the Study

The findings of the study will be useful to the following stakeholders:

a) Researchers/ Academicians

The findings from the research will assist researchers/ academicians to broaden their syllabus on the political risk assessment in the internationalization decisions of horticultural exporting firms.

b) Horticultural Exporting Firms in Nairobi

The firms in the horticultural exporting firms in Nairobi will also benefit from the insights with respect to this study in their policy formulation and implementation in their international business management strategies with respect to the salient risk factors that influence export decisions and the internationalization decisions of horticultural exporting firms in Nairobi, and lastly, the relative importance of political risk factors inherent in their internationalization decisions.

c) Government: Ministries and Department

A number of ministries are involved in the exportation of a number of commodities from the horticultural sector. There are a number of departments under these ministries which are involved directly or indirectly in the horticultural exporting firms in Nairobi. The government will therefore reap from this study's findings in terms of policy formulation and implementation in their international business management strategies with respect to the political risk factors that influence export decisions and the internationalization decisions.

CHAPTER TWO

LITERATURE REVIEW

2.1 The Concept of Political Risk and Internationalization

Simon (1982; p. 68) viewed political risk as "governmental or societal actions and policies, originating either within or outside the host country, and negatively affecting either a select group of, or the majority of, foreign business operations and investments" Howell (1998) dichotomized political risk definitions in terms of those that require acts of national governments and those that include political acts not originated by governments, such as rebellions. He emphasizes that more recently the relevant government level may not be the national government but often the regional, state, provincial, or local government.

Adapting de la Torre and Neckar's (1988) definition of political risk makes the definition comprehensive in nature and allows for the inclusion of both actual and opportunity loss, FDI and exporting, and governmental and external actions. This definition includes both actual loss (e.g., confiscation) and opportunity loss resulting in reduction in the value of a stream of benefits (e.g., currency and remittance restrictions) as a result of actions taken by legitimate government authorities. It also includes actual loss (e.g., revolution, war) and opportunity loss (e.g., threats by hostile groups) as a result of external agents outside the control of government authorities.

Internationalization is defined as "the process of adapting a firm's operations (strategy, structure, resource, etc.) to international environments" (Calof and Beamish 1995, p.116) and includes both forward internationalization, such as going from exporting to FDI (Johanson and Vahlne 1977, 1990); and backward internationalization, such as going from FDI to exporting (Calof and Beamish, 1995). Exporting and FDI represent two important entry modes, among others, in the internationalization process of firms preparing to serve a foreign market. Similarly, from a corporate portfolio and product life-cycle perspective, divestment is a real strategic option (Chow and Hamilton, 1993). Such de-internationalization may take several forms, such as reduction of operations or ownership stakes, switching to operations mode with a lower level of commitment, divestment, and closure.

2.2 Political Risk Factors

In formulating a framework of political risk factors, several authors emphasize the need to consider not only political but also economic variables (Alon and Martin, 1998; de la Torre and Neckar, 1988; Monti-Belkaoui and Riahi-Belkaoui, 1998; Overholt, 1982; Simon, 1984) to search "for what one might call the potential for trouble" (de la Torre and Neckar, 1988). The de la Torre and Neckar's framework will be selected to examine the various political risk factors because it incorporates first the economic and political dimensions and secondly the internal (domestic) and external (foreign) dimensions. This classification yields four categories of country-level political risk factors: internal-economic, external-economic, internal-political, and external-political.

2.2.1 External-Political Factors

Political risk is often externally induced (de la Torre and Neckar, 1988). Factors to examine include position on international issues, regional and international political conflict and cooperation, and general attitude toward foreign businesses. Often, the government's position on international issues can influence political conflict or cooperation with key players. The following factors will be used in this particular study with respect to the Nairobi horticultural exporting firms' assessment on the political risk in their internationalization decisions, regional and international political conflict and cooperation, and general attitude of host country governments toward foreign business.

Regional and international political conflict and cooperation refers to international events that encompass the relations between the host country and the home country, such as the breaking of diplomatic ties, and between the host country and third countries, such as the creation of a regional trading bloc (Nigh, 1985; Schollhammer and Nigh, 1984).

Attitude of host country government toward foreign businesses refers to the global attitude of the existing political regime toward foreign investment and trade (de la Torre and Neckar, 1988). The attitude toward foreign businesses may act as a signal of political risk and is the result of the ideological climate, nationalism, and the propensity of the current government to intervene in the markets (Toyne and Walters, 1993).

2.2.2 Internal-Political Factors

An understanding of the political situation of the host country warrants the study of the cohesiveness of the social structure, the disparity between people's beliefs and aspirations on the one hand and the quality of leadership on the other, the relative power of the government, the strength and tradition of national institutions, and more general indicators such as official corruption and riots (de la Torre and Neckar, 1988). Therefore, the following factors will be used to assess the Nairobi horticultural exporting firms assess the political risk in their internationalization decisions: political stability, level of democracy, and level of red tape and corruption.

Political stability refers to "political fluctuations, which change the business environment significantly" (Robock, 1971). Political instability, or the uncertainty about the future of the political system, may lead to policy instability. Firms may face different tax rules, import restrictions, or even expropriation due to a change in the regime, and thus they may minimize commitments to a market where policy credibility is low (Henisz and Delios, 2001). However, not every regime change will lead to a change in government policy. Political stability itself will usually be determined by other political and socioeconomic factors (Balkan, 1992; Brewer, 1985).

Finally, policy changes need not be abrupt but can often occur gradually with the same detrimental effects as sudden policy changes (Minor, 2003). Level of democracy refers to the degree to which elected officials in the executive and legislative branches of government reflect the popular will of the people. Ali and Isse (2004) argue that democratic regimes tend to be economically more dynamic than totalitarian regimes and thereby tend to better satisfy the desires and will of people. Satisfied people are less likely to initiate revolutions. They found that democracies are less prone to radical policy changes but are politically not any more stable than totalitarian regimes. Balkan (1992) found an inverse relationship between political risk and the level of democracy. Howell

and Chaddick (1994) show a positive correlation between authoritarian governments and political losses to investors.

Degree of red tape in the host country government generally refers to the extent of the layers of operational administrative rules and procedures that may be politically initiated and is a measure of government effectiveness and efficiency. At the very extreme, it can also include corruption and bribery. Each country has a certain amount of tolerance toward the corruption of the establishment. However, once that tolerance level is exceeded, there may be a risk to the stability of the political system (Raddock, 1986). Ongoing corruption, even without a regime change, is politically risky for MNEs because of the potential for increasing bribe demands over time. Zhao, Kim, and Du (2003) found that less corrupt, more transparent countries are able to attract more FDI.

2.2.3 External-Economic Factors

Political risk analysis must also be directed to external economic position (de la Torre and Neckar, 1988). In this category, factors include foreign trade and barriers to trade, external debt, overall balance of payments, capital flights, and general indicators such as foreign exchange rates. The following factors will be used in the Nairobi horticultural exporting firms' assessment of the political risk in their internationalization decisions: level of protectionism, level of debt outstanding, capital outflow restrictions and stability of foreign exchange rates.

Level of protectionism of the host country includes import restrictions via tariffs and quotas (Rice and Mahmoud, 1990), buy-domestic rules, and local content requirements. The current level of protectionism in the host country, together with other factors, helps determine the likelihood of more protectionist host government policies in the future.

The level of debt outstanding in the host country is also an important factor since countries with high levels of debt outstanding need to manage their debt and negotiate with foreign banks and multilateral institutions such as the International Monetary Fund. The outcomes of these negotiations and the resulting policy changes are difficult to predict and have potentially major destabilizing political, social, and economic consequences (Miller, 1992).

Capital outflow restrictions refers to restrictions on foreign exchange reserves imposed by the host country government (Eiteman, Stonehill, and Moffett, 2004) or are introduced when the government gives in to political pressure (Sethi and Luther, 1986). Thus, capital outflow restrictions are indicative of the government's willingness to intervene in the markets in response to economic difficulties and lobbying by pressure groups. The current level of capital outflow restrictions provides a benchmark for likely increases or decreases of these restrictions in the future (Hashmi and Guvenli, 1992; Kennedy, 1985).

Stability of foreign exchange rates refers to the likelihood that governments will introduce new policies, such as exchange controls, in response to a rapidly deteriorating value of currency (Eiteman et al., 2004). In general, unstable foreign exchange rates lead to major economic problems, resulting in increased political risk to international business operations (Eun, Resnick, and Brean, 2005)

2.2.4 Internal-Economic Factors

Internal-economic factors include an assessment of the host country's economy and its rate of development (de la Torre and Neckar, 1988). This study will make use of an aggregate look at the host country and summarizes this factor by using its level of economic development, which is measured by factors such as per capita income, price index, income distribution, and economic growth.

A large gap between the aspirations of people and economic reality significantly increases the likelihood of a revolution (Knudsen, 1974). High per capita income and strong economic growth have a positive impact on a country's risk rating (Cosset and Roy, 1991). Developing countries may also view foreign investment as a potentially exploitative entity and therefore resort to rules that promote indigenous business (Stevens, 1997).

2.3 Internationalization Theories

The internationalization theories, whether emphasizing the behavior rationale, transaction cost logic, or product life cycle reasoning, commonly agree that the internationalization is a gradual learning process in which the rate, sequence, and direction of international expansion are a function of a firm's experience, capability, and evolution. In this view, a firm's participation in a specific foreign market proceeds in sequential steps indicating an increasing resource commitment and an increasing experience accumulation (Johanson and Vahlne, 1977; Welch and Loustarinen, 1988)

These theories also hold that firms enter new markets involving successively greater psychic distance. Thus, firms start internationalization in those markets they can most easily understand, where perceived market uncertainty is low and it is easy to spot opportunities. This strand of research also emphasizes the importance of knowledge accumulation. As firms become more familiar with the foreign markets, firms will gradually reach a fairly advanced stage of international involvement evolving from exporting to high forms of international operations (Chang and Rosenzweig, 2001).

The strand of transaction cost logic adds a control dimension to explaining internationalization (Anderson and Gatignon, 1989). This strand stresses two factors, cost and risk, and links them with entry mode and international expansion. It advocates a gradual process from low-cost, low-risk entry strategies to higher-cost, higher-risk strategies (Buckley and Casson, 1985). Opportunism and asset specificity force firms to make trade-offs among the entry modes in the internationalization process (Williamson, 1985). The strand of product life cycle model posits a stepwise sequence from domestic innovation and production to exporting and to foreign direct investment (Vernon, 1966).

It suggests that a product is first produced by the parent firm, then by its foreign subsidiaries and finally anywhere in the world markets where costs are the lowest. According to this theory, internationalization of production always begins with developed countries and moves to less developed countries at a later stage. Despite different emphases, these theory streams all suggest an incremental pace at which firms expand into overseas markets, an evolutionary sequence by which firms escalate their international participation and a limited and cautious coverage at least in the early stages of internationalization. Two interrelated key concepts underlying these shared tenets are the psychic distance (Kogut and Singh, 1988) and experiential learning (Fina and Rugman, 1996). Incremental and sequential international expansion of firms is constrained by the psychic and geographic distances. The psychic distance epitomizes knowledge and information deficiency that increases the uncertainty of undertaking overseas business and the costs of coordination, which in turn influences the foreign expansion. Consequently, firms select and enter foreign markets exhibiting great similarities in economic, cultural, and political systems

The literature on internationalization has revealed a number of barriers small businesses face in their attempt to enter foreign markets. These include both endogenous and exogenous factors. By the very nature of their size, resource constraint, both tangible and intangible, has often been cited as one among the endogenous factors inhibiting small firm internationalization. In his attempt to explain the existence of large multinational companies, Dunning (1981, 1997) cites ownership advantages as one among the facilitating factors. Such advantage is lacking in small firms. Small firms lack financial resources, management and marketing skills, previous export experience and export knowledge, lack of command of foreign language, cultural experience, poor knowledge of foreign market information, and fear of foreign market risks (psychic distance) etc. Exogenous inhibitors include: financing problems, technical barriers, and cumbersome export procedures (Moini, 1997).

There is a growing literature suggesting that small firms may have to rely on networks and relationships to overcome their size disadvantages as they internationalize (Madhok, 1997). Small firms may also have to rely on networks to overcome their isolation in the current globalized market. Networks could be seen as providing a competitive advantage to small firms, because of possibility of resource sharing and learning among network members that could enable them to minimize the disadvantages mentioned above. This may prove to be an excellent way for developing countries to develop their business skills in exporting.

Literature that encompasses the determinants of a firm's export behaviour highlights that synthesis is possible at two broad levels (Aaby and Slater, 1989; Ford and Leonidou, 1991): first, the external environment level, that includes factors that the individual exporter can only control to a very limited extent, such as macro-economic, social, physical, cultural, and political aspects, as well as industry characteristics that influence export behaviour and performance; and secondly, the firm level, also referred to as organizational determinants, that includes those structural and behavioural aspects within the firm that have a potential effect on exporting (Leonidou, 1998a).

According to Zou and Stan (1998), classifying export determinants into internal and external factors is theoretically justified as the two categories correspond to different theoretical bases: resource-based theory and industrial organization theory, respectively. While industrial organization approach may be particularly useful in explaining exporters' economic performance, internationalization process literature has relied on internal factors as the key driving forces of that process. Resource availability, market knowledge, psychic distance (Johanson and Wiedersheim-Paul, 1975, Johanson and Vahlne, 1977), management attitudes and perceptions The Emerald Research Register for this journal is available (Simpson and Kujawa, 1974; Calof and Beamish, 1995), and more recently, relational capabilities (Ling-yee and Ogunmokun, 2001) are among those internal factors.

Thus, as the focus of this paper is on the Nairobi's horticultural exporting firms assessment of the political risk in their internationalization decisions.

2.4 Political Risk Assessment and Internationalization Decisions

A number of theories have attempted to explain why, when, where, and how firms engage themselves in international business. They range from economic to behavioral theories. Economic theories that have been used range from those that explain why trade takes place between nations to theories of the firm that explain the economic logic of going international. On the other hand behavioral theories have their roots in business administration, and they focus on the managerial decisions of the individual firm or the owner manager.

Below is a review on the major traditional and recent theories that have gained currency in the internationalization literature concerning political risk assessment and internationalization decisions.

The theory of growth draws heavily from industrial economics, and international economics. Luostarinen (1979), and Rugman (1980) use basic constituents of Penrose (1995) and her perspective on growth to explain internationalization of the firm. Economic fundamentals in a way dictate that one of the ways firms seek growth is through internationalization. It seems plausible therefore that growth is a significant driving force in corporate internationalization. Another economic theory that has been used to explain firm internationalization is Vernon's (1979) product life cycle (PLC) approach, although the original theory focused on trade between nations. The basic assumption of the PLC model is that location of new products usually starts in some developed countries such as the USA to take advantage of high domestic demand, before investments can start in other moderate-income countries such as Europe. At a later stage when the product is standardized, the less developed countries may offer competitive advantages as a product location (could be through FDI also). The theory has been cited for not taking into consideration products that have been traded without going through all the stages of the PLC owing to technological changes and deregulation of markets. The model is therefore firm specific and product-specific.

Among the behavioral models are the transaction cost economics (TCE) approach, the Uppsala process model of internationalization, the innovation-diffusion model, the eclectic model, the resource-based perspective, and more recently the born global and the network perspectives. Some of these models are competing with one another, while others are complementing the existing theories. The TCE, the Uppsala model and the diffusion model are among the traditional internationalization theories. Researchers such as Madhok (1997), and Wilkinson (2002) have used Williamson's (1975, 1985) TCE approach, which considers cost minimization, to determine a governance mode market entry mode in foreign markets

Considering the uncertainties and risks associated with distant markets or culturally different markets (psychic distance), firms will tend to internalize exporting activities or transactions with foreign markets. This theory explains the behavior of multinational enterprises, and their preference for hierarchical to market exchange transactions. Williamson identified three key conditions of transactions that affect choice of governance mode: asset specificity, frequency and size of transaction, and uncertainty. The assumption is that where the market is large and transactions are frequent, and also where assets owned by a company have limited other use, firms will favor internalization in order to minimize, among other problems, opportunisms and hence transaction costs. From the foreign market entry point of view firms will favor internalization (hierarchically integrated) of foreign market transactions.

The Uppsala process model or the stage model on the other hand, describes firms' internationalization as an incremental, step-by step process. That a firm will start as a low commitment exporter to committed exporter as it gains international marketing knowledge and experience and overcomes the psychic distance phenomenon. Hence, an exporting firm will have to start with irregular export activities. In the next stage the firm will export via independent representatives or agents (indirect exporting). When it has gained experience the exporting firm will establish an overseas sales subsidiary (direct exporting) and finally undertake overseas production/manufacturing (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977, 1990).

Similarly, according to the Finnish variant of the stage model, at the beginning, firms will export to geographically close markets before venturing into distant and culturally different markets. This is supported by Luostarinen's (1979) large survey of Finnish firms in the 1960s and 1970s and beyond. His study also supported the Uppsala process model. The major factor influencing an incremental or a gradual process of foreign market entry is uncertainty with distant or culturally different markets, and the fear to invest resources where market knowledge is limited. Psychic distance appears to be the major hindrance, and is minimized through experiential learning and market commitment in foreign markets. These models have been criticized for being very deterministic (Johanson and Vahlne, 1992), for lacking explanation on behavior of firms that leapfrog

2.5 Summary and the Research Gaps

Evidence suggests that while firms generally move in the direction of increasing resources toward foreign markets, they also move in the reverse direction for strategic reasons (e.g., Benito and Welch, 1997; Calof and Beamish, 1995). Based on organization learning theory, as firms expand over time their existing structures and systems will fail to fit the new global environment. It is here that firms need to reconfigure internal structures, systems, and processes to fit the new market environment (Ruigrok and Wagner, 2003; Sullivan, 1994). Multinational firms engage in de-internationalization triggered by foreign market conditions, or simply foreign government actions.

Since the "first boom" of the 1960s and 1970s, political risk has undergone some significant changes with the emergence of more subtle forms of government interference (Wells Jr., 1998). This "new breed of risks" (Minor, 2003) is subtle and arises very gradually. New governments may negate existing agreements rather than expropriate assets outright, for example by revoking exploration licenses (Minor). Also, gradual economic changes may result in significant political risks, such as the suddenly introduced inconvertibility of the local currency. Therefore research into the impact of different levels of government on political risk would be beneficial for firms that need to assess their political risk exposure. In the area of licensing, what is still unclear is the impact of country and political risk on the net flow of licensed technology. Another paradox that is unresolved on the intellectual property rights (IPR) enhance the since a strong IPR framework can trigger both market expansion, by reducing transaction cost, as well as market power, by raising the opportunity cost of licensing (Fosfuri, 2004; Smith, 2001). Clearly, there is a need to examine carefully the various entry modes of internationalization and the specific political risk scenarios associated with each entry modality within an integrated theoretical framework. Political risk and hazards within the framework of transaction cost economics seems to be a promising theoretical template.

There is also a dearth of studies on how political risk assessment ought to be tailored to different entry modes, hence this study on "how do the Nairobi's horticultural exporting firms assess the political risk in their internationalization decisions."

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This part described the procedures that the researcher used in the study to collect and analyze the data collected from the field. This section covered the Research design, population, data collection, and data analysis and presentation

3.2 Research Design

This study used a descriptive survey. It applied statistical procedures to describe and analyze data in order to summarize and organize it in an effective and meaningful way. Cross-sectional data was used to examine relations between various properties and dispositions under investigation. This was then analyzed to demonstrate the relations between various variables. According to Mugenda and Mugenda (2003), descriptive research design is used when the problem has been well designed and where the researcher can engage in a field survey by going to the population of interest in order for the respondents to explain certain features about the problem of study. Descriptive survey was chosen as the purpose of the research was to obtain information concerning the current status of the phenomena. This design is also best for a qualitative study because it aims at describing the influence of political risk factors on the internationalization decisions of horticultural exporting firms in Nairobi. According to Cooper & Schindler (2003), a study concerned with the finding out who, what, which and how of a phenomena is referred to as a descriptive survey design. The cross sectional technique was used as the data was collected at a specific period.

3.3 Population

The population of this study constituted all 48 of the horticultural exporting firms in Nairobi. This is the target population. However, the accessible population was narrowed down to the Marketing manager of the firm in Nairobi.

3.4 Data Collection

The study relied on primary data collection methods. The items in the questionnaire were strictly developed focusing on the literature review to assist in the collection of primary data, (see Appendix II). The questions were both closed and of open-ended type. The closed ended questions aimed at obtaining specific responses while the open-ended bit gave flexibility for the respondent to answer.

The questionnaire had three sections with different sets of questions. Section A - Organization's Profile; Section B – the political risk factors that influence export decisions and the internationalization decisions of horticultural exporting firms in Nairobi; Section C- The most important political risk factors inherent in the internationalization decisions. The questions in section B answered the first objective of the study, i.e. the salient political risk factors that influence export decisions and the internationalization decisions of horticultural exporting firms in Nairobi. Questions in section C of the first questionnaire answered the second objective of the study, i.e. the relative importance of political risk factors inherent in the internationalization decisions of horticultural exporting firms in Nairobi.

The classification and analysis of political risk factors inherent in the internationalization decisions ranged across five general sets of factors: internal-economic, external-economic, internal-political, and external-political factors.

The questionnaire was self administered in that it involved the 'drop-and-pick-later' approach. This gave the respondents ample amount of time to think through the questions before answering them.

The research also relied on records of events that had already taken place (cross-sectional period of five years ago), hence, the researcher never manipulated any casual factors, attitude of employees or challenges/effects of temporary work arrangements at horticultural producing firms' work place.

3.5Data Analysis

The questionnaires were edited for completeness and consistency and coded to classify responses into meaningful categories to enable the data to be analyzed by use of Statistical Package for Social Scientists (SPSS) computer software. Descriptive statistics such as frequency distribution were used in order to examine the pattern of responses to each of the variables under description Percentages, frequencies and arithmetic median were used in order to facilitate comparison. Tables and charts were used in presentation of data findings.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

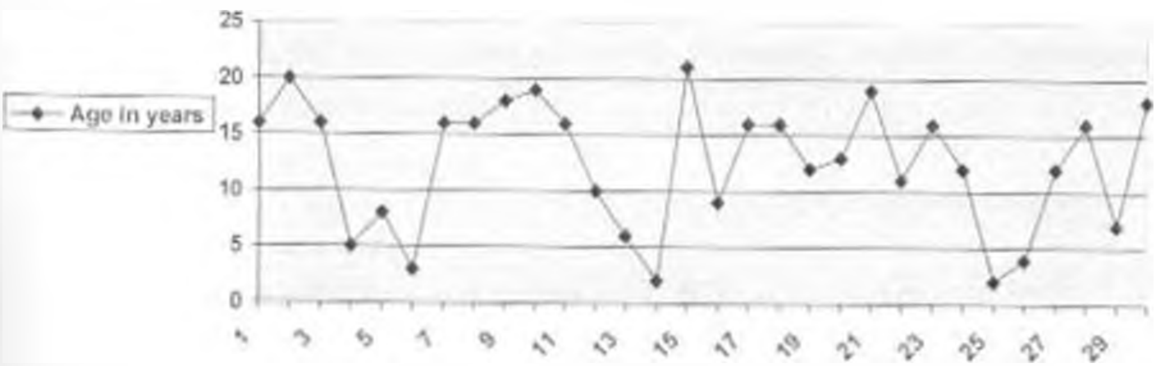
This chapter contains analysis and presentation of results. The data is summarized and presented as a feedback report from the respondents on each of the variables in question The data was derived from the respondent residing from the Head Office of the companies studied

There seems to have been two main challenges during the study. According to the study the subject of study required them to share information that others considered confidential and for this reason some respondents were suspicious about the motive of the researcher given that there is apparently some mistrust within the industry On the other hand the same respondents claimed to be "tired of being interviewed" since the Horticultural industry seems to be attracting a sizeable number of researchers in different disciplines. Forty-eight (48) questionnaires were distributed out of which thirty (30) responded by completing and returning the questionnaires. This gave a response rate of 62.5 % and non-response rate of 37.5 % thus reliability and validity of the data collected.

4.1.1 Demographic attributes of the Companies:Age of Companies

The participating companies were distributed as shown in figure 2 below since inception.

Figure 1: Age of responding Companies



Companies

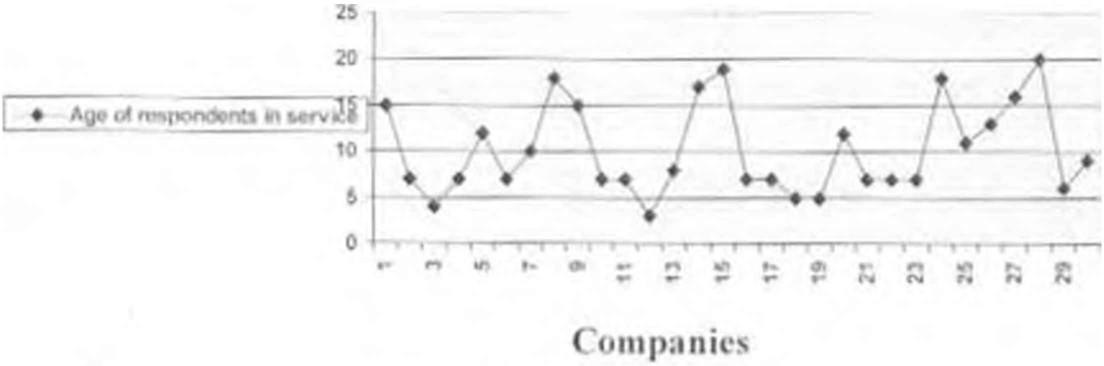
Source: Study Questionnaire

This indicates that most of the participating companies were within the same range of number of years in operation with a median of 16 years. This also may be the reason to why most of them resorted in foreign direct investment production

4.1.2 Length of Service with the Company

The participating respondents in the sampled companies had been in service long enough with the median of 7 years in their respective companies thus reliability and validity of the data collected from them.

Figure 2: Age of Respondents in service



Source: Study Questionnaire

4.1.3 Total Export Volume

According to the findings in Table 4.5, 23.3% of companies export less than one hundred (100) horticultural products, 33.3% of companies export between one hundred and one and five hundred (101-500) horticultural products, 43.3% of companies export five hundred and more (>500) horticultural products, giving an indication that most of the horticultural companies are exporting over five hundred volume of products internationally as seen in table 1 below

Table 3: Total Export Volume

Age distribution	Frequency	percent
Less than 100	7	23.33
101-500	10	33.33
Over 500	13	43.33
Total	30	100.0

Source: Study Questionnaire

4.2 The influence of Political Risk factors on the internationalization decisions of Horticultural firms in Nairobi

4.2.1 Internationalization Process/Stages by firms

A high percentage (91%) of participating companies had same view of how they started up exporting products to finally overseas production. The stages followed by these companies according to the study findings are by: Occasionally export of products to foreign markets: export via agents; Set up of sales subsidiaries to both sell and promote products in foreign markets; and lastly, after full product awareness in foreign markets, the companies resorted in overseas production. This concurs with Burton and Schlegelmilch, (1987); Johanson and Vahlne, (1990) in the literature review argument that firms move sequentially through different stages as they develop their international activities.

4.2.2 Firm's key areas of focus in political risk assessment

The study sought to investigate the focus of organizations in political risk assessment in their international involvement. The study findings shows that (70%) of participating companies focused on foreign direct Investment (FDI), 16.7% focused on exporting, outsourcing, 10% focused on licensing while 3.30% focused on franchising as shown in figure 4.

Figure 4: Political risk Assessment focus

International involvement	Frequency	percent
Focus on foreign direct investment (FDI)	21	70
Focus on exporting, outsourcing	5	16.7
Focus on licensing	3	10
Focus on franchising	1	3.30
Others	-	-
Total	30	100.0

Source: Study Questionnaire

This focus of international involvement by organization may be to monitor the operation of the competitors while reviewing their operation strategies that are geared to put off competitors. They also engage in foreign direct investment (FDI) to be exempted from other taxes, access the country's unlimited resources, avoid charges from the agents, and increase market commitment. This concurs with Gomes and Ramaswamy, 1999 argument that companies move in foreign direct investment to increase market knowledge minimize political risk and financial overhead costs.

4.2.3 Critical stage in a Firm's internationalization process

The study sought to investigate the participating firm's critical stage during the internationalization process. The study findings shows that 40% of participating companies were for pre-entry stage 33.3% were for entry stage, 20% were for post entry stage while 6.7% of participating companies were for the all the above as indicated in figure 5

Figure 5: Firm's Internationalization Process Stage

Internationalization Process Stage	Frequency	percent
Pre-entry stage	12	40
Entry stage	10	33.3
Post entry stage	6	20
All the above	2	6.7
Total	30	100.0

Source: Study Questionnaire

Pre- entry stage according to study finding to be critical stage may be attributed to the compliance process, which the organization has to meet before, given license to operate. The other reason might be barriers to trading blocks which the company if from outside the trading block has to fight its own way to be allowed to operate.

4.2.4 Firm's political risk

The study assessed the firm's view on the political risk The study findings shows that 30% of participating companies viewed political risk in terms of government interference with business operation, 66.7% viewed it in terms of creeping expropriation, devaluation and revaluation, foreign exchange controls and foreign wars, while 3.3% viewed political risk as a possibility of losses rather than creation of new opportunities as indicated in figure 6.

Figure 6: Firm's View of Political Risk

Political Risk View	Frequency	percent
Political risk is viewed in terms of government interference with business operation.	9	30
Events such as creeping expropriation, devaluation and revaluation, foreign exchange controls and foreign wars.	20	66.7
Possibility of losses rather than creation of new opportunities	1	3.3
Total	30	100.0

Source: Study Questionnaire

Creeping expropriation, devaluation and revaluation, foreign exchange controls and foreign wars seem to be what the firms worries much as they heavily rely on foreign exchange and any devaluation or revaluation of currency may affect their operation. This is in agreement with Monti-Belkaoui and Riahi- Belkaoui, 1998 argument in the literature review.

4.2.5 Firm's risk experience in international business activities

Figure 7 seeks to present the firm's risk experience in internationalization business activities.

Figure 7: Firm's risk experience in international business activities

Risks	Very great extent (%)	Great extent (%)	Neither agree nor disagree (%)	Small extent (%)	Very Small Extent (%)	Total (%)
The total seizure of corporate assets without compensation	22 (73.3)	8 (26.7)				30 (100)
The unprovoked interference of external agents	7(23.3)	9(30)	10 (33.3)	4 (13.3)		30 (100)
Governmental sanction. with the normal operations and performance of the firm	22 (73.3)	8 (26.7)				30 (100)
Threat and disruption outside the control of legitimate governments	22 (73.3)	8 (26.7)				30 (100)
Nationalistic buyers	22	8				30

	(73.3)	(26.7)				(100)
Nationalistic suppliers	22 (73.3)	8 (26.7)				30 (100)
Nationalistic employees and other key stakeholders	22 (73.3)	8 (26.7)				30 (100)
Geographic limitations	22 (73.3)	8 (26.7)				30 (100)
The psychic and cultural distance	22 (73.3)	8 (26.7)				30 (100)
Minor potential for financial benefits	1 (3.3)		6 (20)	16 (53.3)	7 (23.3)	30 (100)
Actual loss for example confiscation	18 (60)	7 (23.3)		5 (16.7)		30 (100)
Opportunity loss resulting in reduction in the value of a stream of benefits for example, currency and remittance restrictions	22 (73.3)	8 (26.7)				30 (100)
Losses resulting from revolution and war	22 (73.3)	8 (26.7)				30 (100)
Other opportunity loss resulting from threats by hostile groups	22 (73.3)	8 (26.7)				30 (100)

From above data findings, it can be established that the following firm's risk experience factors in internationalization business activities had the highest percentage of 73.3% and 26.7% very great extent and great extent respectively: the total seizure of corporate assets without compensation; Governmental sanction, with the normal operations and performance of the firm; Threat and disruption outside the control of legitimate governments, Nationalistic buyers; Nationalistic suppliers; Nationalistic employees and other key stakeholders; Geographic limitations; The psychic and cultural distance Opportunity loss resulting in reduction in the value of a stream of benefits for example currency and remittance restrictions; Losses resulting from revolution and war. Other opportunity loss resulting from threats by hostile groups whereas minor potential for financial benefits was considered not major affecting risk factor having response rate of 53.3%, 23.3% and 20% for small extent, very small extent and neither agree nor disagree respectively. This concurs with the arguments of Howell, (1998); Simon, (1982) and de la Torre and Neckar, (1988) in the literature review.

4.2.6 Political risk factors dimensions

This area of study findings attempts to explore the Political risk factors that incorporate both the economic and political dimensions and the internal (domestic) and external (foreign) dimensions as presented in figure 8

Figure 8: Political risk factors dimensions

Political Risk Factors	Very great extent (%)	Great extent (%)	Neither agree nor disagree (%)	Small extent (%)	Very Small Extent (%)	Total (%)
External-Political Factors						
The host country's position on international issues	26 (86.7)	4 (13.3)				30 (100)
Regional and international political conflict and cooperation	26 (86.7)	4 (13.3)				30 (100)
The host country's general attitude toward foreign businesses	26 (86.7)	4 (13.3)				30 (100)
General attitude of host country governments toward foreign business	26 (86.7)	4 (13.3)				30 (100)
International events that encompass the relations between the host country and the home country	26 (86.7)	4 (13.3)				30 (100)
The breaking of diplomatic ties	26 (86.7)	4 (13.3)				30 (100)
The creation of a regional trading bloc	26 (86.7)	4 (13.3)				30 (100)
The global attitude of the existing political regime toward foreign investment and trade	26 (86.7)	6 (20)				30 (100)

From above data findings, it can be established that all the participating firms had a strong response rate of 86.7% and 20% as very great extent and great extent respectively for all the factors of external political risk and none on smaller side. This indicates that for a firm to internationalize its production must not overlook any of the above factors as all affect the operation of business in one way or another. This is inline with the arguments of De la Torre and Neckar, (1998), Rice and Mahmoud, (1990) and Miller (1992) in our literature review.

Figure 9: Internal Political risk factors

Internal-Political Factors	Very great extent (%)	Great extent (%)	Neither agree nor disagree (%)	Small extent (%)	Very Small Extent (%)	Total (%)
The cohesiveness of the social structure in the host country	27 (90)	3 (10)				30 (100)
The disparity between people's beliefs and aspirations in the host country	27 (90)	3 (10)				30 (100)
The quality of leadership in the host country	27 (90)	3 (10)				30 (100)
The relative power of the government in the host country		16 (53.3)		11 (36.7)	3 (10)	30 (100)
The strength and tradition of national institutions	9 (30)	4 (13.3)		5 (16.7)	12 (40)	30 (100)
More general indicators such as official corruption and riots in the host country	27 (90)	3 (10)				30 (100)
Political stability in the host country	27 (90)	3 (10)				30 (100)
The level of democracy in the host country		16 (53.3)		11 (36.7)	3 (10)	30 (100)
The layers of operational administrative rules and procedures that may be politically initiated		16 (53.3)		11 (36.7)	3 (10)	30 (100)
The government effectiveness and efficiency	27 (90)	3 (10)				30 (100)
The amount of tolerance toward the	27 (90)	3 (10)				30 (100)

corruption of the establishment						
Others						
1.						
2.						
External-Economic Factors	Very great extent (%)	Great extent (%)	Neither agree nor disagree (%)	Small extent (%)	Very Small Extent (%)	Total (%)
Foreign trade and barriers to trade and level of protectionism	27 (90)	3 (10)				30 (100)
Import restrictions via tariffs and quotas (	27 (90)	3 (10)				30 (100)
Buy-domestic rules	27 (90)	3 (10)				30 (100)
Local content requirements	27 (90)	3 (10)		2 (6.7)		30 (100)
External debt (level of debt outstanding)		2 (6.7)		20 (66.7)	8 (26.7)	30 (100)
Overall balance of payments		2 (6.7)		20 (66.7)	8 (26.7)	30 (100)
Capital flights (capital outflow restrictions)	27 (90)	3 (10)				30 (30)
Stability of foreign exchange rates	27 (90)	3 (10)				30 (100)
Others						
1.						
2.						
3						
Internal-Economic Factors	Very great extent (%)	Great extent (%)	Neither agree nor disagree (%)	Small extent (%)	Very Small Extent (%)	Total (%)
Assessment of the host country's economy and its rate of development	11 (36.7)	16 (53.3)		3 (10)		30 (100)
Level of economic development in the host country	23 (76.7)	7 (23.3)				30 (100)
Per capita income in the host country	16 (53.3)	11 (36.7)		3 (10)		30 (100)
Price index in the host country		2 (6.7)		20 (66.7)	8 (26.7)	30 (100)
Income distribution in the host country		2 (6.7)		20 (66.7)	8 (26.7)	30 (100)
Economic growth in		3 (10)		16	11	30

the host country				(53.3)	(36.7)	(100)
Others						
1.						

From the above study findings on Internal political factors table, it can be established that several factors were of major concern by the participating companies with the rate of 90% and 10% very great extent and great extent respectively. These factors are: the cohesiveness of the social structure in the host country; the disparity between people's beliefs and aspirations in the host country; the quality of leadership in the host country; more general indicators such as official corruption and riots in the host country; Political stability in the host country; the government effectiveness and efficiency and the amount of tolerance toward the corruption of the establishment. This is true in the sense that the political instability of the host country will definitely lead to policy instability of the firm thus reason to why internal political factors have to be assessed before product internationalization. This concurs with the arguments of Robock, (1971), Henisz and Delios, (2001), Howell and Chaddick (1994) and Ali and Isse (2004) in the literature review.

Still on the same analysis on external Economic factors in the above figure, the researcher establishes that the participating companies rated all the factors under review apart from two with a rate of 90% and 10% very great extent and great extent respectively. The factors included: Foreign trade and barriers to trade and level of protectionism; Import restrictions via tariffs and quotas and Local content requirements; Stability of foreign exchange rates while the two remaining factors (External debt (level of debt outstanding) and Overall balance of payments) had a rate of 6.7%, 66.7% and 26.7% for great extent, small extent and very small extent respectively. This indicates that the participating companies never saw a big issue or major threat with the stated two factors but a lot of evaluation is needed for the others since for example unstable foreign exchange rate will definitely result in increased political risk to international business operations. This is inline with argument of Fiteman, Stonehill and Moffett, (2004), Sethi and Luther, (1986) and Hashmi and Guvenli, (1992) in the literature review

4.3 Most Important Political Risk Factors Inherent In the Internationalization Decisions

This section try to explore how important are the political risk factors in figure 10 inherent in the internationalization decisions of horticultural exporting firms in Nairobi.

Figure 10: Most important Political risk factors

Political Risk Factors	Very great extent (%)	Great extent (%)	Neither agree nor disagree (%)	Small extent (%)	Very Small Extent (%)	Total (%)
a) Attitude of host country toward foreign business	23 (76.7)	7 (23.3)				30 (100)
b) Level of economic development of host country (e.g., per capita income)	16 (53.3)	11 (36.7)		3 (10)		30 (100)
c) Level of democracy in host country (i.e., does the government reflect the popular will of the people?)		2 (6.7)		20 (66.7)	8 (26.7)	30 (100)
d) Stability of ruling political party in host country	1 (3.3)		6 (20)	16 (53.3)	7 (23.3)	30 (100)
e) Stability of foreign exchange rates and relative prices in host country (e.g., unexpected currency devaluation, inflation)	23 (76.7)	7 (23.3)				30 (100)
f) Extent of regional and international cooperation of host country (e.g., border disputes, political refugees, position on international issues)	23 (76.7)	7 (23.3)				30 (100)
g) Level of protectionism in host country (e.g., tariffs, import restriction, content laws)	16 (53.3)	11 (36.7)		3 (10)		30 (100)
h) Degree of red tape in host country government (e.g.,	27 (90)	3 (10)				30 (100)

excessive administrative layers and corruption)						
i) Level of outstanding foreign debt in host country		2 (6.7)		20 (66.7)	8 (26.7)	30 (100)
j) Capital outflow restrictions (e.g., restrictions on repatriation of funds and currency convertibility)	27 (90)	3 (10)				30 (100)
k) Innovative capability	16 (53.3)	11 (36.7)		3 (10)		30 (100)
l) Marketing capability	27 (90)	3 (10)				30 (100)
m) Internetability	16 (53.3)	11 (36.7)		3 (10)		30 (100)
n) Technological supportiveness	27 (90)	3 (10)				30 (100)
o) Legal protection	27 (90)	3 (10)				30 (100)
p) Transparency	16 (53.3)	11 (36.7)		3 (10)		30 (100)

From the above study findings, it can be established that the following political factors were the most important in the internationalization decision making process having 90% and 10% very great extent and great extent respectively: Degree of red tape in host country government (e.g., excessive administrative layers and corruption); Capital outflow restrictions (e.g., restrictions on repatriation of funds and currency convertibility); Marketing capability; Technological supportiveness and Legal protection whereas: Attitude of host country toward foreign business; Stability of foreign exchange rates and relative prices in host country (e.g., unexpected currency devaluation, inflation); Extent of regional and international cooperation of host country (e.g., border disputes, political refugees, position on international issues) followed second with 76.7% and 23.3% very great extent and great extent respectively.

CHAPTER FIVE

Summary, Conclusions and Recommendations

5.1 Introduction

The importance of carrying out the completion of the influence of political risk factors on the internationalization decisions of horticultural exporting firms in Nairobi cannot be over emphasized despite the challenges encountered. Challenges are part and parcel of implementation process and needs to be confronted and dealt with as they arise. Horticultural firms are on track in carefully analyzing all the political risk factors on internalization before making decision on type of focus to undertake and stages to follow during their internalization process. Their careful evaluation and political risk analysis is making the firms sustain their operations and even venture further in the other international unexploited markets inspite of increased political instability in the whole world.

5.2 Summary

This study examined the influence of political risk factors on the internationalization decisions of horticultural exporting firms in Nairobi. The researcher established that horticultural firms are influenced by several political risk factors during their internationalization decision-making process. These political risk factors are in two broad dimensions i.e economical and political dimensions and lastly Internal (domestic) and external (foreign) dimensions as exhaustively discussed in detail in chapter four above.

The research also went further to analyze the most important political risk factors inherent in the internationalization decision-making process as indicated in chapter four above. From this, Degree of red tape in host country government (e.g., excessive administrative layers and corruption); Capital outflow restrictions (e.g., restrictions on repatriation of funds and currency convertibility); Marketing capability; Technological supportiveness and Legal protection were seen by participating companies as inherent political risk factors that the industry has to critically analyze before undertaking product internalization

According to the research findings, it has emerged that while firms generally move in the direction of increasing resources toward foreign markets, they also move in the reverse direction for strategic reasons which is done only through foreign direct investment as seen on the participating firms who have opted for FDI. This finding concurs with argument by Benito and Welch, (1997) and Calof and Beamish, (1995) in the literature review.

From researchers' analysis, there is evidence that many governments try to negate existing agreements rather than expropriate assets outright, for example by revoking exploration licenses as seen from chapter four having a high percentage. Also, while on the same findings, the gradual economic change has significant political risks, such as the suddenly introduced inconvertibility of the local currency. Clearly, there is a need to examine carefully the various entry modes of internationalization and the specific political risk scenarios associated with each entry modality within an integrated theoretical framework. Political risk and hazards within the framework of transaction cost economics seems to be a promising theoretical template in this study finding. This is inline with the views of both Fosfuri, (2004) and Smith, (2001) in literature review.

5.3 Conclusion

Overall, the horticultural firms in Nairobi acknowledge to experience most of the key political risk factors in their internalization process as discussed in chapter four and have put a lot of emphasis on how political risk assessment ought to be tailored to different entry modes and tried to critically analyze all these influencing political risk factors before making decision on mode of investment to undertake thus relevancy and reliability of the study area.

5.4 Limitation of the study

The limitation that may be linked to the study can first and foremost be that one of concentration of Marketing department at the Head Office more than the branch network. This was mainly because the majority of the target group is based at the head office. The research thus can be enriched by getting views from the branch heads that are also responsible for the branch production and may have concrete information on how political risk factors affect production at their respective branches going by worldwide nation political turmoil occurring at several country side

Furthermore, the research embraced the marketing management department of horticultural firms. it could be enriched by embracing a wide departments that include other top management departments that are involved in strategic policy formulation of the firm, and maybe this would have broadened the ideas got from the questionnaire of this top management.

5.5 Recommendation for Further Research

Further research can be undertaken to incorporate the wider top management departments of the horticultural firms as opposed to only marketing department. More so there is need to carryout research of all horticultural firms in the country not only in Nairobi. Diversity in emphasis on the target study group can be made to include other variables that are great influence on firms' internationalization decision-making process. Further research can be made targeting the wider branch network so that the total picture is taken care of the firm.

5.6 Recommendations for Policy Makers of the Horticultural firms

Further studies can be done by examining other Multinational organizations in different sector other than this one specific horticultural firms. More so, the data collected can be made open to include the views of the various departments in the organizational structure that comprise the top management. This will go along way in enforcing the fact that influence of political risk factors affects all areas of the organizations and all the individuals in their internationalization decision-making process. Also studies can be taken to establish how other sector respond to influence of political risk factors in internationalization decision making process, besides the horticultural firm so that the cumulative finding will provide relevant and additional information to the study of the influence of political risk factors on the internationalization decisions of horticultural exporting firms in Nairobi.

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APPENDICES:

APPENDIX I: LETTER OF INTRODUCTION

Dear Respondent,

REF: THE INFLUENCE OF POLITICAL RISK FACTORS ON THE INTERNATIONALIZATION DECISIONS OF HORTICULTURAL EXPORTING FIRMS IN NAIROBI.

I am a student pursuing a postgraduate degree at the school of business, university of Nairobi, currently in research year. The title of my study is *"The Influence of Political Risk Factors on the Internationalization Decisions of Horticultural Exporting Firms in Nairobi"*. You have been selected to participate in this study as a categorical respondent in the horticultural exporting firm's population because of your role in international business management activities, particularly in the horticultural exporting firm's arrangements.

The questionnaire attached asks questions about your firm's assessment of political risk factors and internationalization decisions. Your participation is essential to this study and will enhance our knowledge of political risk factors and internationalization decisions in relation to international business management activities. I also wish to inform you that the information you provide will only be used for academic purposes and will be treated with strict confidentiality. If you would like, we can send to you the report of the findings on request. My address is provided below.

Thank you very much.

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APPENDIX II: QUESTIONNAIRES

SECTION A: GENERAL INFORMATION

1. Name of Firm ____________ Length of time in International business ______

2. Your functional position ________

3. Length of time with the company: ___ ___

4. Total Export Volume.

   Less than 100 [ ]

   101-500 [ ]

   500 and more [ ]

SECTION B: THE POLITICAL RISK FACTORS THAT INFLUENCE EXPORT DECISIONS AND THE INTERNATIONALIZATION DECISIONS OF HORTICULTURAL EXPORTING FIRMS IN NAIROBI.

5. Is your firm currently involved in the process of adapting a firm's operations (strategy, structure, resource, etc.) to international environments?

   Yes [ ] No [ ]

6. How did your firm begin to internationalize its operations from the start up to overseas production?

   ____

   ____

   ____

   ____

7. Has your firm been experiencing governmental or societal actions and policies, originating either within or outside the host country, and negatively affecting either you as a select group of, or the majority of, foreign business operations and investments?

   Yes [ ] No [ ]

8. Do you treat political risk assessment as a very important aspect in your firm's international activities?

Yes [ ] No [ ]

9. What are your firm's key areas of focus in political risk assessment in your international involvement?

a) Focus on foreign direct investments (FDI) [ ]
b) Focus on exporting, outsourcing [ ]
c) Focus on licensing [ ]
d) Focus on franchising [ ]
e) Others

____

____

10. What is the most critical stage in a firm's internationalization process?

a) During the pre-entry stage [ ]
b) During the entry stage [ ]
c) During the post entry stage [ ]
d) All of the above [ ]

11. How does your firm view political risk?

a) Political risk is viewed in terms of government interference with business operations [ ]
b) Events, such as creeping expropriation, devaluation and revaluation, foreign exchange controls, and foreign wars [ ]
c) the possibility of losses rather than creation of new opportunities [ ]

Internal-Political Factors	5	4	3	2	1
The cohesiveness of the social structure in the host country					
The disparity between people's beliefs and aspirations in the host country					
The quality of leadership in the host country					
The relative power of the government in the host country					
The strength and tradition of national institutions					
More general indicators such as official corruption and riots in the host country					
Political stability in the host country					
The level of democracy in the host country					
The layers of operational administrative rules and procedures that may be politically initiated					
The government effectiveness and efficiency					
The amount of tolerance toward the corruption of the establishment					
Others					
3.					
4.					
5.					
External-Economic Factors	**5**	**4**	**3**	**2**	**1**
Foreign trade and barriers to trade and level of protectionism					
Import restrictions via tariffs and quotas (					
Buy-domestic rules					
Local content requirements					
External debt (level of debt outstanding)					
Overall balance of payments					
Capital flights (capital outflow restrictions)					
Stability of foreign exchange rates					
Others					
4					
5.					
6.					
Internal-Economic Factors	**5**	**4**	**3**	**2**	**1**
Assessment of the host country's economy and its rate of development					
Level of economic development in the host country					
Per capita income in the host country					
Price index in the host country					
Income distribution in the host country					
Economic growth in the host country					
Others					
2.					
3.					
4.					

SECTION C: MOST IMPORTANT POLITICAL RISK FACTORS INHERENT IN THE INTERNATIONALIZATION DECISIONS

14. How important are the following political risk factors inherent in the internationalization decisions of horticultural exporting firms in Nairobi. Where 5 Important to a Very Great Extent; 4 Important to a Great Extent; 3 Neither agree nor Disagree; 2 Important to a Small Extent; 1 Important to a Very Small Extent.

Political Risk Factors	5	4	3	2	1
q) Attitude of host country toward foreign business					
r) Level of economic development of host country (e.g., per capita income)					
s) Level of democracy in host country (i.e., does the government reflect the popular will of the people?)					
t) Stability of ruling political party in host country					
u) Stability of foreign exchange rates and relative prices in host country (e.g., unexpected currency devaluation, inflation)					
v) Extent of regional and international cooperation of host country (e.g., border disputes, political refugees, position on international issues)					
w) Level of protectionism in host country (e.g., tariffs, import restriction, content laws)					
x) Degree of red tape in host country government (e.g., excessive administrative layers and corruption)					
y) Level of outstanding foreign debt in host country					
z) Capital outflow restrictions (e.g., restrictions on repatriation of funds and currency convertibility)					
aa) Innovative capability					
bb) Marketing capability					
cc) Internetability					
dd) Technological supportiveness					
ee) Legal protection					
ff) Transparency					

THANK YOU FOR TAKING YOUR TIME TO FILL THIS QUESTIONNAIRE

LIST OF HORTICULTURAL EXPORTING FIRMS IN NAIROBI

1 Home Grown (K) ltd

2: Aquila Development Company

3: Carnation Plants

4: Doralco Kenya Ltd

5 K-Net Flowers Ltd

6: Karen Roses Ltd

7: Lauren International Flowers Ltd

8: Magana Flowers Ltd

9: Mbugua Enterprises Ltd

10: Schmuelling (K) Ltd

11: Sian Group of Companies

12: Subati Flowers Ltd

13: PJ Flowers Ltd

14: Tsara Rozen Kenya Ltd

15 Thara Orchards

16 Tropiflora Lt

17: Agrifresh Kenya Ltd

18: Ansa Horticultural Consultants

19: Avenue Fresh Produce

20: Bright Morning Star & Gen. Merchandise Ltd

21: Dominion Vegfruits Ltd

22: East African Growers

23: Everest Enterprises Ltd

24 Fian Green Kenya Ltd

25: Everest Enterprises Ltd

26: Fian Green Kenya Ltd

27: Frigoken Ltd

28: Global Fresh Ltd

29:Greenlands Agro Producers

30: Hillside Green Growers & Exporters Co. Ltd

31: Homegrown Kenya Ltd

32: Horticultural Farmers & Exporters co. Ltd

33: Indu farm EPZ Ltd

34: Justel Fruits

35: Kenya Fresh Exporters Ltd

36: Kenya Horticultural Exporters Ltd

37: Kandia Fresh Produce Suppliers Ltd

38 Makindu Growers & Packers Ltd

39 Mboga Tuu Ltd

40: Sacco Fresh Ltd

41: Sian Exports Kenya Ltd

42: Sunripe (1976) Ltd

43: Super Veg Ltd

44: Tropical Fresh Enterprises

45: Tropical Horticultural Products

46: Value Pak Foods Ltd

47: Vegpro Kenya Ltd

48: Wamu Investments Ltd