

**INTERNATIONALIZATION OF SMALL AND MEDIUM  
SECTOR OIL DISTRIBUTORS IN KENYA**

**BY:**

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BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY  
OF NAIROBI**

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## **DECLARATION**

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

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**D 61/P/8510/2005**

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

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## **DEDICATION**

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## **ABSTRACT**

All international businesses operate within an international business arena. The internationalization process is a long and demanding process and it takes both resources and management models to succeed. Many Small and Medium Enterprises (SMEs) have started an internationalization process, which has stopped after some time, because they have not committed more resources to their operations due to lack of resources and knowledge or lack of distinctive management models of how to run the business on an international level. The research was conducted in all the 21 Oil distributing firms in Kenya. The objective of the study therefore was to establish the impact of internationalization of small and medium sector oil distributors in Kenya. Primary data was gathered using semi-structured questionnaires where the respondent was issued with the questionnaires. Secondary data was gathered from past published scholarly articles. Descriptive analysis was used. SPSS computer software was used for analysis to generate data. The study concludes that the level of entrepreneurial competence for entrepreneurs had been very useful in setting the strategies in the firm and that most of their managers had been very optimistic in creating and running of new ventures of business and internationalization of our firms had been supported with the large network of their teams. The study recommends that the management of the firms should ensure that the number of employees in the firm is adequate. Further, the number of employees should be adequate to handle the role in operational productivity; as well as adequately be able to deliver effectively to the needs of the customers and handle the duties assigned. Further, competent employees should be hired who should be service-minded in delivery of quality services and should conduct themselves in a very professional manner. Further, the employees should be relevant and highly qualified. This would increase the overall operational productivity of the firms.

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## **ABBREVIATIONS**

<b>SMEs</b>	Small and Medium Enterprises
<b>CBS</b>	Central Bureau of Statistics
<b>CEG</b>	Centre for Economic Growth
<b>NBS</b>	National Baseline Survey
<b>MSMEs</b>	Micro, Small and Medium Enterprises
<b>GDP</b>	Gross Domestic Product
<b>KPRL</b>	Kenya Petroleum Refineries Limited

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

All international businesses operate within an international business arena. These are businesses operating in different countries for profit. All multinationals start in a base (home) country and grow into other countries to acquire the international business status. The internationalization process is a long and demanding process and it takes both resources and management models to succeed. Many Small and Medium Enterprises (SMEs) have started an internationalization process, which has stopped after some time, because they have not committed more resources to their operations due to lack of resources and knowledge or lack of distinctive management models of how to run the business on an international level.

Internationalization is a major dimension of the growth of a firm (Peng&Delios, 2006). Market liberalization and digitization are encouraging SMEs to operate beyond their national borders and compete with each other in foreign countries and new regions (Barkema, Baum &Mannix, 2002). Issues related to globalization, internationalization and liberalization have received a great deal of attention in recent research. A study commissioned by (OECD) (1997) on the globalization of SMEs, provides evidence from 18 member countries that suggests (SMEs) are internationalizing more rapidly than in the past and provides evidence of small firms that became involved in international business activities almost from inception. Generally, most of these SMEs are generating earnings in the global markets more than in the home countries.

Internationalization in small firms is more often combined with threats than with opportunities. Traditionally small firms are, however, often considered to be home-market oriented (Lindmark 1998). Earlier research has been concentrated on internationalization in large firms and therefore internationalization in SMEs is a relatively unexamined area (Coviello& Munro 1997; Holmlund&Kock 1998). Apparently there is a need for more research within this area.

### **1.1.1 Internationalization**

Internationalization is the process of increasing involvement in international operations (Welch and Luostarinen 1988). Studies have been undertaken over time and have been an inspiration to future researchers. The studies have yielded development of different models being formulated to study Internationalization.

The original model is the so called Uppsala-model (the U-model) that was developed in the 70s by among others Johanson and Wiedersheim-Paul 1975 and Johanson and Vahlne 1977. The model contains different steps that describe the firms' level of internationalization. According to the model a firm often initiates its internationalization process by direct exporting to a foreign country, followed by exporting with the help of independent representatives (agents) abroad. The following stage is to develop sales subsidiaries in a foreign country and the last stage is the establishment of a production/manufacturing facility abroad.

A basic assumption of the model is that one cycle of events constitutes the input of the next. This indicates that the present state explains the direction of further internationalization. The theory of the internationalization process is broadly accepted. Lately there has, though, been recognized a need for development of the original model as it was created in the 70s. The arising arguments are, for example large firms with surplus resources can be expected to make larger

internationalization steps. Secondly, there is the situation when market conditions are stable and homogeneous; it can happen that important market knowledge can be acquired in other ways than through experience. Thirdly, a firm with considerable experience from markets with similar characteristics can generalize these experiences. (Johanson&Vahlne 1993).Another important aspect is the claim by several authors (Porter 1980; Levitt 1983) that the world generally has moved towards homogenization. Technology has “made the distances between countries” smaller, and communication flows faster.

### **1.1.2 Small and Medium Enterprises (SMEs) in Kenya**

SMEs are defined differently by different institutions. In Kenya, the following definitions of the SME sector are applied. Microenterprises are categorized with 1-10 full time employees with turnover ranging between Ksh. 0-5 million. Small enterprises are categorized with 11-50 full time employees with turnover ranging between Ksh. 5-50 million. Medium enterprises are categorized with 51-100 full time employees with turnover ranging between Ksh. 51M-1 Billion (Kenya, 2011). Regardless of the quantitative definition, it is agreed by virtually all stakeholders in this market that SMEs in Kenya are the “missing middle”. Their size and credit demand have outgrown the capacity of microfinance institutions, which offer small, short loans via group-lending methodologies, while the opacity of the SME risk profile combined with the lenders’ lack of sophisticated risk assessment techniques makes many of them appear undesirable as credit customers for business banking (Kenya, 2011).

Medium enterprises constitute a category difficult to demarcate vis-à-vis the "small" and "big" business categories. Small and Medium Enterprises (SMEs) are an important economic base to any country as they are a great sources of employment creation (RoK, 2009). The National

Baseline Survey, Central Bureau of Statistics, Centre for Economic Growth, K-Rep Holdings (CBS/CEG/KREP, 1999) notes that the growth of enterprises from micro to small, small to medium and then medium to large means, employment creation, increase in revenue and capital base. The economic impact of SMEs can be measured by their contribution to output, employment, income, investment, exports and other economic indicators (Prasad, 2004).

According to Kenya's Economic Survey 2008 (RoK, 2008), out of the total new jobs created, Micro small and Medium enterprises (MSMES) created 426.9 (89.9%) thousand new jobs out of a total of 474.8 new jobs created in 2007 in Kenya. In 2008 MSMES created 433.5 (79.9%) new jobs out of 543.3 thousand new jobs created in Kenya (RoK, 2009). In the same year the sector contributed Kshs 806,170 million of GDP which is 59% of total GDP (RoK, 2009). The Kenya Economic Survey 2010 (RoK, 2010) notes that this same sector generated 390.4 thousand new jobs which translate into 87.6% of the total jobs generated in 2009.

### **1.1.3 SME Oil Distributors**

SME Oil Distributors will consist of SME businesses that purchase refined fuel for both domestic supply and exportation to the regional market. Previously, the sector has majorly been an oligopoly dominated by the traditional large oil marketers e.g. Total, Shell. Trade liberalization stimulates the development of SMEs (Tony Nowell, 2012). There has in the recent past been a wave of market liberalization of key sectors that has resulted to a rapid growth in the economy driven by mainly SMEs. In Kenya, government policies previously requiring oil marketers to refine at least 50% of their crude oil with Kenya Petroleum Refinery Ltd, has since been lifted and the result has been the market opening up to smaller players since they can now invest in this sector by importing refined oil either for local consumption and/or exportation to other countries mainly in the East African Region.

The introduction of stringent tax regimes by the Kenya Revenue Authority requiring upfront prepayment of 50% taxes on oil imports has worsened the situation in Kenya and its environment for the oil industry coupled with poor productivity. 70% of the fuel that is sold locally is refined by the Kenya Petroleum Refineries Limited (KPRL) while the rest is imported as fully refined. The government has introduced the Open Tender System OTS, where all the crude oil imported is supplied by the same supplier so as to minimize costs and level the retail prices. Tenders are then invited from the oil companies to bid for the delivery and the company with the lowest bid automatically wins the tender. The winner imports the crude and has it discharged into KPRL tanks. The oil storage across the country has been a challenge to Kenya Pipeline Company as they do not have enough storage capacity to cater for the regional towns.

## **1.2 Research Problem**

SMEs are critical for a country's economic welfare and social development. Government policies and programmes encourage SMEs by underlining their significance for national development. SMEs also play a major role in sustaining home country businesses in the face of pressure from the foreign firms entering the home market (Pollard, 2001). SMEs in Kenya have meaningfully contributed to the social development through initiatives in human resource development, education, health, women empowerment etc. The study of SMEs in general has received the attention of academicians but their role has yet to be actively explored. Moreover, the internationalization process of SMEs demands more empirical evidence as they continue to expand overseas since the commencement of transformation process (Glas, 1999).

The plethora of government policies and programmes for the encouragement of SMEs underline their significance for national development. The unfortunate thing is that this vital force in development of SMEs in the Kenyan economy has low survival rate (Njoroge, 2006). In spite of



,the researches and support strategies therein stipulated, the performance of the SMEs is still dismal. SMEs, have a high death rate, (60%) closing down within their 1st year of operation, 40% less than 2 years old and 66% less than 6 years; thus hardly gain from experience (RoK,1999).

The emergence of multinational firms has been a distinct feature of globalization in the developing countries. Many of the emerging multinational firms are SMEs. Trade liberalization and the concurrent international competition exert twin pressures on firms leading to the need to maintain a sustainable competitive advantage owing to the complexities of international trade. New ways are required to compete, as the earlier competitive strategy of differentiation based on price, product or technology, is losing value (Lloyd-Reason, 2003). Home country markets have opened to foreign companies. Small and medium enterprises face the competitive pressure of both domestic and overseas rivals. SMEs respond by entering foreign markets, motivated by both push and pull factors (Lloyd-Reason, 2003).The present paper studies the Internationalization process of SMEs in Kenya. To realize the knowledge gap, the previous studies on SMEs in Kenya have not focused on the strategies used in the internationalization of SMEs in Kenya. This research work will be focused on the Internationalization of SMEs in the Energy Sector and specifically Oil Distributors in Kenya. The research question to be answered will be to establish the impact of internationalization of small and medium sector oil distributors in Kenya.

### **1.3 Research Objectives**

To establish the impact of internationalization of small and medium sector oil distributors in Kenya.

#### **1.4 Value of the study**

The findings of the study will help SME Oil Distributors in Kenya develop business strategies that enhance internationalization of their firms. The development stakeholders in the industry can also use the information in decision making during intervention.

The government on the other hand may use the results of the study in formulating policies that will improve internationalization of energy SMEs in the country.

The study will also be of particular value to researchers in academic institutions as it will be used as a reference piece for future studies. The findings of the study might also open up opportunities for researchers to carry out further studies of the same topic in the industry.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews the theoretical and empirical literature relevant to the research problem under investigation. The literature was reviewed from books, journals, newspapers, libraries, academic publications, magazines, government statistics and any other relevant source.

#### **2.2 Theoretical Review of Internationalization Process**

As per Resource based view (RBV), the firm is considered as a bundle of linked resources (Rumelt, 1984). Various resources like technological, financial, human, physical and organizational are acknowledged in the literature. The RBV is applicable for the growth of small firms and also for their internationalization activities.

Wernerfelt (1984) observes that a firm's growth emerges from the balance between exploitation of existing resources and development of new resources. Wernerfelt (1984) opined that international market diversification had a role in new resource building. The RBV considers firm's resources as determinants of internationalization activity. This view has been widely studied. However internationalization can itself emerge as a firm resource for superior performance. The present study is an attempt to study the latter aspect which deserves more attention in the context of emerging economies.

The Knowledge based view (KBV) of the firm has emerged as an extension to RBV. According to Kuivalainen (2003), KBV accepts much of the contention of RBV and also emphasizes the process of evolution of specific capabilities. The idea of the evolution of resources, capabilities and knowledge and learning is central to superior performance (Teece et al., 1997).

Kuivalainen (2003) views firms as repositories of knowledge, and Miller and Shamsie (1996) observe that, in increasingly unstable environment, KBV contribute most to firms' performance. Kuivalainen and Bell (2004) also view that the entrepreneur(s) is the catalyst for new resources, capabilities and knowledge.

### **2.3.1 Stages Approach**

These models converge on idea that internationalization is a linear and sequential process composed of a whole of stages 'chain of establishment' (Coviello and McAuley, 1999). The researchers distinguish two ways from analysis of internationalization in this approach: the Uppsala model and the innovation-related internationalization model. However, many researchers (Boutary, 2006; Etrillard, 2004; Gankema et al., 2000; Torrès, 2004) carry to the need of reviewing the general range of these models (Axinn and Metthyssens, 2002).

Analyzing internationalization as a process of gradual learning, this model places the experience gained gradually as the key of this internationalization (Johanson and Vahlne, 1977). Thus, by integrating knowledge drawn from this experience on the foreign markets, the company feeds its decision-making process. Internationalization then becomes the result of a series of incremental decisions. These authors note, according to their studies of the Swedish firms, that they follow a sequential process.

The model of innovation (I-model) defines internationalization as a process whose stages can be similar with those adoption a product new (Rogers, 1962, cited in Gankema, et al., 2000; Gemser et al., 2004; Li et al., 2004). Indeed, a certain number of authors retained this vision to describe the internationalization of SME. All these models consider that each stage to be crossed constitutes an innovation for the company (Gankema et al., 2000; Gemser et al., 2004; Li et al., 2004). Differences are being located in the choice of the stages, their number and in the initiating mechanism of internationalization of SME.

### **2.3.2 Networks approach**

This approach was developed from work of the Uppsala's school. Indeed, Johanson and Vahlne (1990) re-examined their previous model (1977) to propose the importance of the position of the firm in its network. They use the concepts used in their original model and try to explain the motivations and behaviors of internationalization while placing the firm within a multilateral framework mobilizing the relations intra and inter organizational.

Consequently, internationalization is defined like a network developing through the commercial operations carried out with other countries via the three stages defined by Johanson and Mattson (1988): prolongation, penetration, and integration. Prolongation being the first step and is accompanied by new investments for the firm. The penetration refers to the development of the positions of the company within the network and the increase of its resources. Integration is more advanced and the firm is related to several national networks which it must coordinate.

The establishment of financial, technological and commercial relations with the other actors of the network makes it possible to the firms to extend their connections and to gradually widen

their activities apart from their own territory until becoming international. These relations involve the firm in deliberated but not planned international relations (Johanson and Mattson, 1988; Johanson and Vahlne, 1990).

Thus, Johanson and Mattson (1988) conceive internationalization as a cumulative process in which the relations are established, developed and maintained continuously in order to attain the objectives of the firm. For the authors, a company can be considered as international because other companies of its network are international. In their model, the progressive learning and the acquisition of knowledge through the interactions inside the network take a great importance.

### **2.3.3 Schumpeter theory of innovation**

It is contended that innovation has relied on the creation of technological or social capability, through problem-solving or learning activities principally within (and between) large firms. The development of new products and processes is the outcome of a path-dependent building upon established capabilities and achievements, by the critical revision of emergent new products or methods and the search for relevant novelty. This insight into the form of innovation is an amalgam of Schumpeter (1934) who used the concept of equilibrium as a theoretical construct. He coined a phrase to describe this equilibrium state: "the circular flow of economic life." Its chief characteristic is that economic life thus relating to the global international functioning of firms which then proceeds routinely on the basis of past experience; there are no forces evident for any change of the status quo (Schumpeter, 1934).

In Schumpeter's theory, the dynamic entrepreneur is the person who innovates, who makes "new combinations" in production thus complying with internationalization which involves integrating an international, intercultural and global dimension into service delivery as far as industries are

concerned. Schumpeter described innovation in several ways. He spelled out the kinds of new combinations that underlie economic development encompassing: creation of a new good or new quality of good; creation of a new method of production; the opening of a new market; the capture of a new source of supply, and; a new organization of industry (e.g. creation or destruction of a monopoly). According to Schumpeter, people act as entrepreneurs only when they actually carry out new combinations, and lose the character of entrepreneurs as soon as they have built up their business, after which they run it as other people run their businesses.

Schumpeter theory maintained that the essential function of the entrepreneur is distinct from that of capitalist, landowner, laborer, and inventor. According to Schumpeter, the entrepreneur may be any and all of these things, but if he or she is, it is by coincidence rather than by nature of function.

#### **2.3.4 Parker's Theory of Proactive**

Proactive behavior has a growing significance in the selection and hiring processes of a company. The reason for this can be found in the changing nature of work in the 21<sup>st</sup> century where work becomes more dynamic and decentralized, where it gets more and more important that employees are able to control changes in their work environments(Leavitt, 1983). Proactive personality, which is considered an antecedent to proactive behavior, provides the skills for an individual to engage in active changing of the work environment. Furthermore, proactive individuals show the initiative to persist until change occurs Additionally, some people identify problems on their own and solve them to advance their personal and organizational environment (Leavitt, 1988) .This is why proactive personality skills are described as a critical determinant of

organizational success (Crant,2000) and also a determinant which leads to increased organizational effectiveness.

A belief that one can be successful in a particular domain, or high self-efficacy, is important in proactive goal generation because being proactive entails quite a high potential psychological risk to the individual ,this in line with promoting internationalization process since it is greatly concerned with increasing the involvement of individuals in international operations (Parker, 2006). Individuals need to feel confident they can both initiate goals and deal with their consequences before they act. Individuals want to be proactive or see value associated with being proactive to change a particular target. When goals are imposed or prescribed via some external regulation, it is expected or necessary. For self-initiated goals, however, the reason to element cannot be taken for granted. Situations in which individuals have high levels of discretion, goals are not tightly specified, the means for achieving them are uncertain, and attainment is not clearly linked to rewards. Under such circumstances there needs to be a strong internal force driving the potentially risky behavior of proactivity (Parker, 2006).

Lakhani& Wolf, (2003) argue that proactivity can be generated by intrinsic motivation. Motivation is important in proactive goal processes particularly for very long-term oriented proactive goals. In a related vein, proactivity can be motivated by the experience of flow, which is when an individual narrows his or her focus to an activity in which he or she feels immersed. (Rousseau et al., 2006). Like other possible future and past identities, future work selves serve as a standard against which the present self can be compared (CGAP, (2004) and constitute motivational resources that individuals can use in the control and direction of their own actions.



Rousseau et al., (2006) showed that future work selves pertaining to individuals' careers motivated greater proactive career-oriented behaviors.

### **2.3 Empirical Review**

A number of studies have demonstrated the role of networks in the internationalization of firms. Coviello and Munro (1995, 1997) conducted empirical studies of the internationalization of small software firms. They found that network relationships have an impact on foreign market selection as well as on the mode of entry in the context of ongoing network processes. Their findings led them to develop a model that combines the process model and the network approach. In a study of the international expansion of Japanese suppliers of automotive components, Martin, et. al. (1998) found that the inter-organizational relationships of suppliers, especially those with buyers, affected their pattern of international expansion. Other researchers have also looked at networks in studies of internationalization strategy.

The research that has been done to date generally has studied the ways in which networks influence internationalization, without discussing how those networks have been created, and without considering the network structure in the country or countries firms entered. Based on case analyses, Coviello (2006) developed a model of "how [international new venture] networks evolve" during the early phase of internationalization. Coviello's (2006) work is nevertheless of great interest, as she shows that "insidership" in networks, developed before entry into a new market, even before the foundation of the firm, is instrumental to the specific internationalization process at hand.

A large-scale empirical study of international marketing and purchasing of industrial products (the IMP project) that was carried out in the late 1970s and early 1980s by researchers from

Sweden and four other European countries was based on the interaction approach (Ford, 1997; Håkansson, 1982; Turnbull & Valla, 1986). Results from the study demonstrated that close and lasting business relationships between suppliers and customers are indeed important, be they within a given country or between countries (Hallén, 1986). This creates interrelated routines.

Moreover, these relationships seem to develop through social exchange processes in which the firms involved enact the relationship interactively and sequentially (Kelley & Thibaut, 1978). The result is the accumulation of knowledge and building of trust, and eventually greater commitment, as also demonstrated in channel and relationship marketing studies (Morgan & Hunt, 1994). In the process, weak ties and unilateral dependence can be transformed into strong relationships and bilateral interdependence, and ultimately increased joint productivity (Zajac & Olsen, 1993). As with the internationalization process model, the research done in the IMP project shows that relationships develop through a process of experiential learning whereby firms learn about the resources and capabilities of their counterparts, and gradually increase their commitments (Hägg & Johanson, 1982).

Research has now also shown that firms are frequently involved in a set of different, close and lasting relationships with important suppliers and customers (Håkansson, 1989). As those firms presumably in turn are engaged in a number of additional business relationships, firms operate in networks of connected business relationships (Anderson, Håkansson, & Johanson, 1994).

The firm may create new knowledge through exchanges in its network of interconnected relationships. Knowledge does not accrue only from the firm's own activities, but also from the activities of its partners, and since those partners also have other relationship partners with whom their activities are coordinated, the focal firm is indirectly engaged in a knowledge creation

process that extends far beyond its own horizon. Thus a network of business relationships provides a firm with an extended knowledge base (Kogut, 2000).

Penrose (1966) and the resource-based view (RBV) (Barney, 1986) assume that resources are heterogeneous, leading to value creation, irrespective of market conditions. The BRV starts with these same assumptions, and adds that exchange within a network allows a firm to acquire knowledge about its relationship partners, including their resources, needs, capabilities, strategies, and other relationships. Relationship partners are therefore indirectly a source of relevant business information about their own partners and more distant actors in the network. Thus the firm commands privileged knowledge about its business network.

## **2.4 Summary**

Internationalization is the extent to which a firm is involved in international business. It includes exporting, foreign subsidiaries, shares ownership by foreigners and the appointment of foreigners in the organizational structure. Bartlett and Ghoshal (2000) have identified two main motivations for firms' internationalization: traditional motivations and emerging motivations. Traditional motivations would include the need to secure key supplies, especially minerals, energy, and scarce raw material resources; an organization's technology or their brand recognition that gives them some competitive advantage in offshore markets and the desire to access low-cost factors of production. For example, the availability of lower-cost capital also became a strong force for internationalization.

Bartlett and Ghoshal (2000) further outlined the emerging motivations for firm internationalization. In many cases, the new motivations were driven by a set of economic,

technological, and social developments that made internationalization essential for a company to survive in particular businesses. As a result, companies that had historically focused only on their domestic markets had to either become international or go out of business since few countries were large enough to support production at such scale by individual companies.

Expanding into international markets is often used by firms that seek rapid growth. As a prerequisite, Bradley and O'Reagain (2001) asserted that SMEs should exploit the domestic market opportunities to build up company resources, focusing particularly on developing a high capability, broadly-based management team and an efficient integration of the business system. SMEs should accordingly concentrate on the product-market segment, either local or abroad, where the core competencies of the firm provide a competitive advantage.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter addresses the research design to be employed by this study as well as the target population. Sampling and sample size were also highlighted in this chapter. The chapter ended with data collection methods and data analysis procedure.

#### **3.2 Research Design**

The research design adopted for this study was a survey study design which is suitable when a detailed analysis of many units of study is desired as it provides focused and detailed insight to phenomenon that may otherwise be unclear. In this study the focus was on internationalization of small and medium sector oil distributors in Kenya.

#### **3.3 Target Population**

Target population according to Mugenda and Mugenda, (1999), is a well-defined or set of people, services, elements, events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. The target population of this research study constituted of all SME Oil Distributors in Kenya involved in International Trade. The target population constituted of the top, middle and lower level management staff in all SME Oil Distributors in Kenya. These comprised of all the respondents working in the 21 oil firms (Appendix II). Mugenda and Mugenda, (1999), explain that the target population should have

some observable characteristics, to which the researcher intends to generalize the results of the study.

### **3.4 Sample size**

A sample size is the number of SMEs to be enrolled in the study so as to enable the researcher infer about the entire SMEs in the study area. The sample size used was determined based on the expense of data collection, the size of the population, purpose of the study and the need to have sufficient statistical power to detect an effect. The population size of SME Oil Marketers in Kenya trading their commodity outside the home country was approximately 21 firms. There were 1500 employees working in the respective firms and a sample of 10% of the total population.

### **3.5 Data collection**

The primary data was collected by the use of questionnaires. Semi structured to open ended questions were designed, moderated for ethical considerations, piloted and distributed to the managers and owners of SMEs. Cooper and Schindler (2006) advocates for the use questionnaires in descriptive studies because it is less costly and inaccessible participants can easily be reached. The questionnaires were self – administered and this minimizes interviewer bias hence promoting accuracy. Questionnaires also yielded quantitative data which was easy to collect and analyze. Questionnaires enable respondents to respond to questions with assurance of anonymity and may be more truthful than would be in personal interview (Cooper & Schindler, 2003).

The researcher emphasized on three key issues. The first one was validity so as to measure our target parameter (indicators) with the desired precision. The second issue was reliability which is

the ability of the questionnaire to produce the same results in the same conditions and lastly discrimination which was an issue of item selection. The data was collected using designed data sheets as questionnaire. The researcher also observed the changes that had taken place in the businesses and record the changes for use during analysis alongside the questionnaires.

### **3.6 Data Analysis**

Quantitative data was analyzed using both descriptive and inferential statistics by employing the help of Statistical Package for Social Sciences (SPSS). SPSS is flexible in presenting and co-relating complex data and for the sake of uniformity in data presentation. It involves computation of frequencies and percentages on closed ended questions. The findings were presented in bar graphs, histograms, tables and pie charts while interpretations were given in prose after each figure and table.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented on to establish the impact of internationalization of small and medium sector oil distributors in Kenya. The data was gathered exclusively from the questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study.

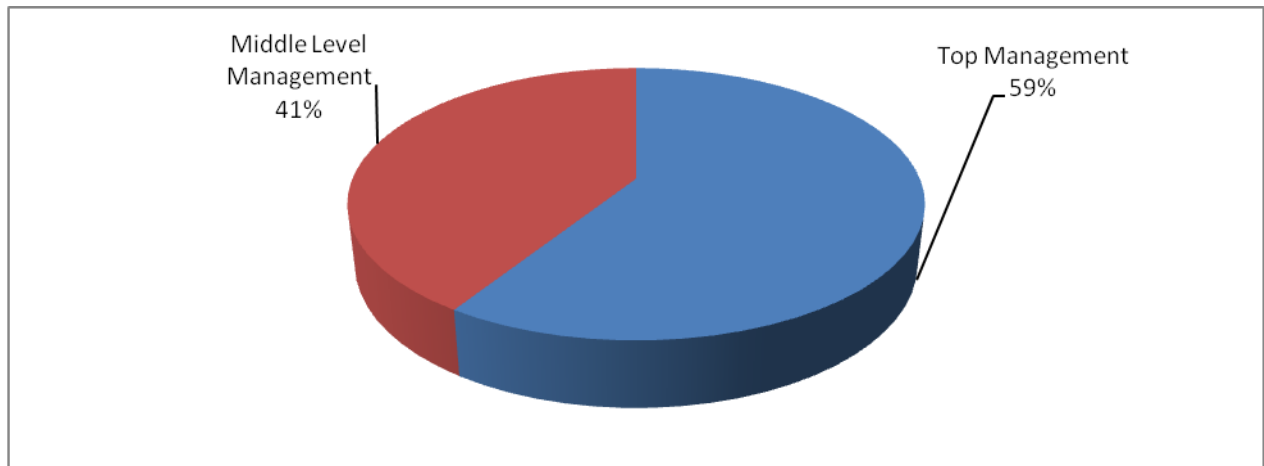
##### **4.1.1 Response rate**

The study targeted 1500 respondents in collecting data with regard to establishing the impact of internationalization of small and medium sector oil distributors in Kenya. From the study, 130 out of the 150 sample respondents filled-in and returned the questionnaires making a response rate of 85.6%.



## 4.2 Demographic information

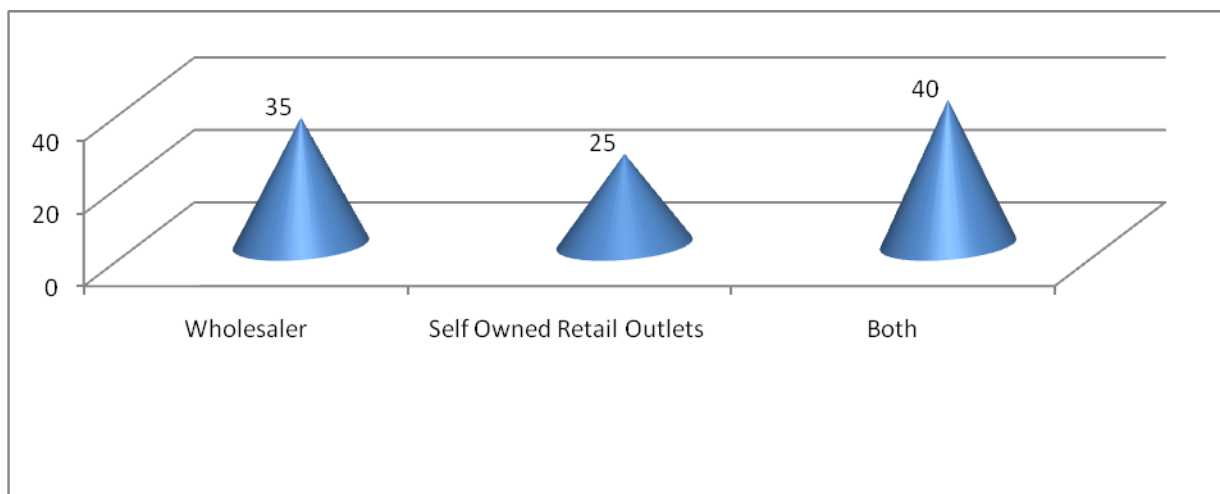
**Figure 4.1: Position in company**



**Source: Researcher (2012)**

From the findings, 59% of the respondents indicated that they were in the top management level while 41% of the respondents indicated that they were in the middle management level.

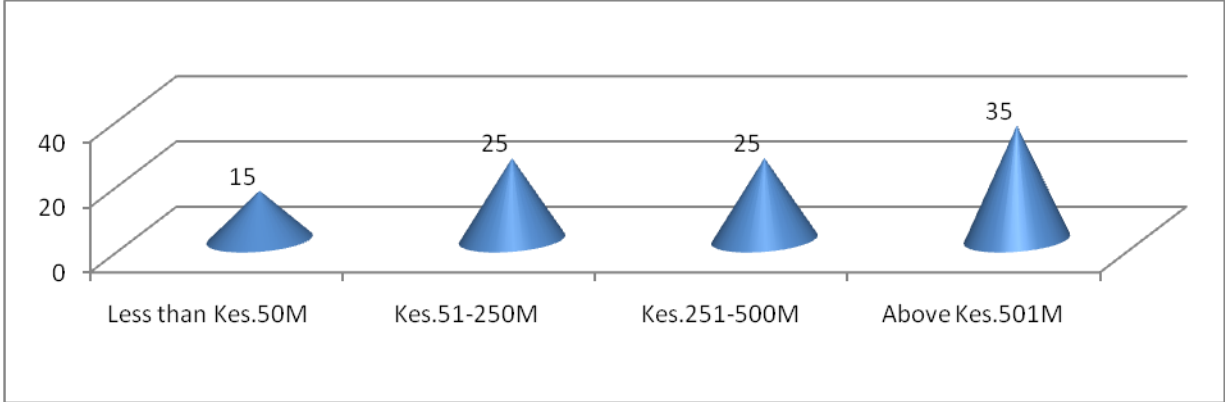
**Figure 4.2: Main Line of Business**



**Source: Researcher (2012)**

From the findings,40% of the respondents indicated that their main line of business was both wholesale and self-owned retail outlets,35% % of the respondents indicated that their main line of business was wholesale while 25%% of the respondents indicated that their main line of business was self-owned retail outlets.

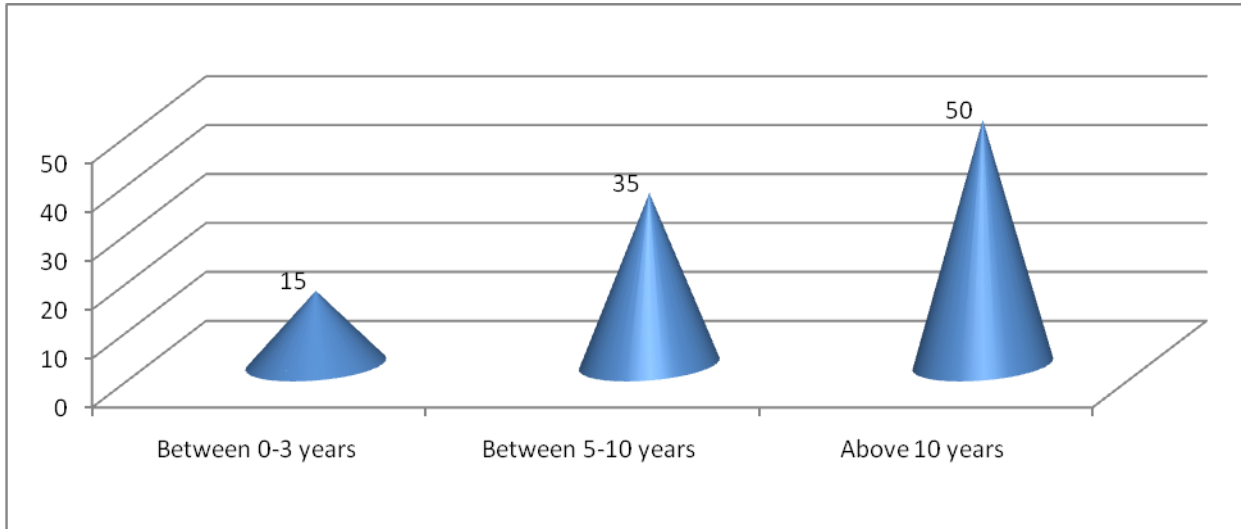
**Figure 4.3: Business Annual Turnover**



**Source: Researcher (2012)**

According to the findings,35% of the respondents indicated that their business annual turnover was above KShs.501 Million,25% of the respondents indicated that their business annual turnover was between KShs.251-500 Million and KShs.51-250 Million respectively while 15% of the respondents indicated that their business annual turnover was less than KShs.50 Million.

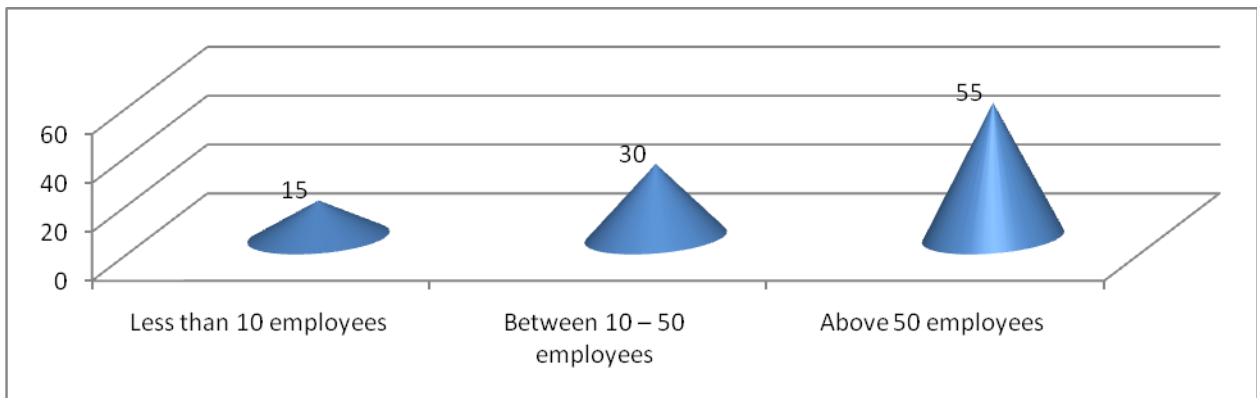
**Figure 4.4: Number of years in International Business**



**Source: Researcher (2012)**

According to the findings, 50% of the respondents indicated that they had been in international business for above 10 years, 35% of the respondents indicated that they had been in international business for between 5-10 years while 15% of the respondents indicated that they had been in international business for between 0-3 years.

**Figure 4.5: Number of employees**



**Source: Researcher (2012)**

According to the findings,55% of the respondents indicated that they had above 50 employees,30% of the respondents indicated that they had between 10-50 employees while 15% of the respondents indicated that they had less than 10 employees.

### 4.3 Study Variables

**Table 4.1: Extent of Agreement with the Following Statements Concerning the Factors that Most Management Teams Use in the Internationalization of their Firms**

	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Stdev
Language barrier has been less influential in the internationalization trade in our firm	26.3	60	4.1	6.1	2.0	3.4	0.2
Political systems have been supportive in all areas of our firm	30	40	14.3	14.0	2.0	2.9	0.3
The level of entrepreneurial competence for our entrepreneurs has been very useful in setting the strategies in the firm	50	34.1	7.2	7.1	2.0	3.6	0.3
High level of industrialization of our enterprise has assisted us in opening up of new markets in other countries	20	43.7	14.3	18.4	4.1	3.4	0.1
Most of our managers have been very optimistic in creating and running of new ventures of business	74.6	15	6.0	1.0	2.0	3.5	0.2
Internationalization of our firms has been supported with the large network of our teams	62	24.3	4.0	6.2	2.0	3.5	0.2

**Source: Researcher (2012)**

According to the findings ,the respondents strongly agreed that the level of entrepreneurial competence for entrepreneurs had been very useful in setting the strategies in the firm as indicated by a mean of 3.6,the respondents strongly agreed that most of their managers had been very optimistic in creating and running of new ventures of business and internationalization of our firms had been supported with the large network of their teams as indicated by a mean of 3.5 respectively, the respondents agreed that language barrier had been less influential in the internationalization trade in their firm and that high level of industrialization of their enterprise had assisted them in opening up of new markets in other countries as indicated by a mean of 3.4 respectively, the respondents further agreed that political systems had been supportive in all areas of their firms as indicated by a mean of 2.9.

**Table 4.2: Most Likely Channel to be Used by SME Oil Distributors in the Internationalization Process**

	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Stdev
Direct exports with established subsidiaries in the international market	32	54.3	4.0	6.2	2.0	3.8	0.3
Exporting to specific well established suppliers/Strategic Alliances	39	41.0	8.0	10.3	2.0	3.5	0.3
Foreign Direct Investment in the host country/establishing a fully-fledged organization in the international market	45.1	39	8.3	6.0	2.0	4.0	0.1
In stages from inception locally, exporting from their home country, establishing alliances abroad before establishing subsidiaries in the international market.	33	30.7	14.2	18.5	4.1	4.0	0.3

**Source: Researcher (2012)**

From the findings, the respondents strongly agreed that Foreign Direct Investment in the host country/establishing a fully-fledged organization in the international market and In stages from inception locally, exporting from their home country, establishing alliances abroad before establishing subsidiaries in the international market were most likely the channels to be used by SME Oil Distributors in the internationalization process as indicated by a mean of 4.0 respectively, the respondents agreed that Direct exports with established subsidiaries in the international market were most likely the channels to be used by SME Oil Distributors in the internationalization process as indicated by a mean of 3.8,the respondents further agreed that Exporting to specific well established suppliers/Strategic Alliances was most likely the channel to be used by SME Oil Distributors in the internationalization process as indicated by a mean of 3.5.

**Table 4.3: Importance of the Following Factors in Successful Internationalization and Growth Strategy of Firm**

	Not at all	Least Important	Moderately Important	Most Important	Mean	Stdev
Senior management commitment to high market penetration	7.1	1.0	53.5	35	2.0	3.7
Management understanding of market dynamics	5.0	6.2	55.3	30	2.0	3.7
Planning prior to implementation of new strategies	40	42.0	6.0	10.3	2.0	3.4
Integration between business and customer outreach	6.0	40	8.3	44.1	2.0	3.9
Alignment of growth strategies with the organization's objectives	18.5	31.7	31.7	33	4.1	3.9
Executive and line management ownership and accountability for implementing, monitoring and reporting on market share growth	2.0	6.1	54.5	35	1.0	3.7

**Source: Researcher (2012)**

From the findings, the respondents indicated that integration between business and customer outreach and alignment of growth strategies with the organization's objectives were the most important factors in successful internationalization and growth strategy of their firm as indicated

by a mean of 3.9 respectively, the respondents indicated that senior management commitment to high market penetration, management understanding of market dynamics and executive and line management ownership and accountability for implementing, monitoring and reporting on market share growth were moderately important factors in successful internationalization and growth strategy of their firm as indicated by a mean of 3.7 respectively, the respondents also indicated that planning prior to implementation of new strategies was a least important factors in successful internationalization and growth strategy of their firm as indicated by a mean of 3.4.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study were to establish the impact of internationalization of small and medium sector oil distributors in Kenya.

#### **5.2 Summary of the Findings**

The study aimed to establish the impact of internationalization of small and medium sector oil distributors in Kenya.

The study found out that the respondents strongly agreed that the level of entrepreneurial competence for entrepreneurs had been very useful in setting the strategies in the firm as indicated by a mean of 3.6, the respondents strongly agreed that most of their managers had been very optimistic in creating and running of new ventures of business and internationalization of our firms had been supported with the large network of their teams as indicated by a mean of 3.5 respectively, the respondents agreed that language barrier had been less influential in the internationalization trade in their firm and that high level of industrialization of their enterprise had assisted them in opening up of new markets in other countries as indicated by a mean of 3.4 respectively, the respondents further agreed that political systems had been supportive in all areas of their firms as indicated by a mean of 2.9. This is in line with the literature review where Parker(2006) indicates that a belief that one can be successful in a particular domain, or high

self-efficacy, is important in proactive goal generation because being proactive entails quite a high potential psychological risk to the individual ,this in line with promoting internationalization process since it is greatly concerned with increasing the involvement of individuals in international operations.

The study further found out that the respondents strongly agreed that Foreign Direct Investment in the host country/establishing a fully-fledged organization in the international market and In stages from inception locally, exporting from their home country, establishing alliances abroad before establishing subsidiaries in the international market were most likely the channels to be used by SME Oil Distributors in the internationalization process as indicated by a mean of 4.0 respectively, the respondents agreed that Direct exports with established subsidiaries in the international market were most likely the channels to be used by SME Oil Distributors in the internationalization process as indicated by a mean of 3.8,the respondents further agreed that Exporting to specific well established suppliers/Strategic Alliances was most likely the channel to be used by SME Oil Distributors in the internationalization process as indicated by a mean of 3.5.This collates with the literature review where Johanson and Mattson(1988) argues that the establishment of financial, technological and commercial relations with the other actors of the network makes it possible to the firms to extend their connections and to gradually widen their activities apart from their own territory until becoming international.

Finally the study found out that the respondents indicated that integration between business and customer outreach and alignment of growth strategies with the organization's objectives were the most important factors in successful internationalization and growth strategy of their firm as indicated by a mean of 3.9 respectively, the respondents indicated that senior management commitment to high market penetration, management understanding of market dynamics and

executive and line management ownership and accountability for implementing, monitoring and reporting on market share growth were moderately important factors in successful internationalization and growth strategy of their firm as indicated by a mean of 3.7 respectively, the respondents also indicated that planning prior to implementation of new strategies was a least important factors in successful internationalization and growth strategy of their firm as indicated by a mean of 3.4. This relates with the literature review where (Johanson and Vahlne, 1977) argue that by integrating knowledge drawn from the experience on foreign markets, the company feeds its decision-making process thus making internationalization become the result of a series of incremental decisions.

### **5.3 Conclusions**

The study concludes that the level of entrepreneurial competence for entrepreneurs had been very useful in setting the strategies in the firm and that most of their managers had been very optimistic in creating and running of new ventures of business and internationalization of our firms had been supported with the large network of their teams.

The study also concludes that Foreign Direct Investment in the host country/establishing a fully-fledged organization in the international market and In stages from inception locally, exporting from their home country, establishing alliances abroad before establishing subsidiaries in the international market were most likely the channels to be used by SME Oil Distributors in the internationalization process.

Finally, the study concludes that integration between business and customer outreach and alignment of growth strategies with the organization's objectives were the most important factors in successful internationalization and growth strategy of their firm and that senior

management commitment to high market penetration, management understanding of market dynamics and executive and line management ownership and accountability for implementing, monitoring and reporting on market share growth were moderately important factors in successful internationalization and growth strategy of their firm.

#### **5.4 Recommendations**

The study recommends that the management of the firms should ensure that the number of employees in the firm is adequate. Further, the number of employees should be adequate to handle the role in operational productivity; as well as adequately be able to deliver effectively to the needs of the customers and handle the duties assigned. Further, competent employees should be hired who should be service-minded in delivery of quality services and should conduct themselves in a very professional manner. Further, the employees should be relevant and highly qualified. This would increase the overall operational productivity of the firms.

The study further recommends that firms should invest in a strong service delivery team who will ensure that services that have been promised to a customer on the first service encounter and on each subsequent encounter are accurately and professionally delivered as this will in turn contribute to an effective operational productivity.

Finally, the study concludes that, firms should focus on the employee wellbeing at work since it promotes advantages to the institution by having a healthy workforce which will in turn improve the service standards of the firm.

### **5.5 Recommendations For Further studies**

This study has established the impact of internationalization of small and medium sector oil distributors in Kenya. To this end therefore a further study on internationalization should be carried on other firms dealing with products such as cement, printer consumables.

Moreover, a study should be carried out to investigate the challenges faced in the internationalization of small and medium sector oil distributors in Kenya

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## APPENDICES

### Appendix I: Questionnaire

#### SECTION A: DEMOGRAPHIC DATA

(Please tick as appropriate)

1. Position in company

Top Management/owner:                       Middle Level Management

2. Main Line of Business

Distribution of Oil/Wholesaler/Supplier    Self Owned Retail Outlets    Both

3. Business Annual Turnover

Less than Kes.50M    Kes.51-250M    Kes.251-500M    Above Kes.501M

4. Number of years in International Business

Between 0-3 years       Between 5-10 years       Above 10 years

5. Number of employees

Less than 10 employees    Between 10 – 50 employees    Above 50 employees

#### SECTION B: INTERNATIONALIZATION OF SME OIL DISTRIBUTORS IN KENYA

6. The following are statements concerning the factors that most management teams use in the internationalization of their firms. To what extent do you agree with the statement given? Rate using the scale of 1-5 whereby 1=strongly disagree, 2=disagree, 3= neutral, 4=agree, 5=strongly agree

Statement	1	2	3	4	5
Language barrier has been less influential in the internationalization trade in our firm					
Political systems have been supportive in all areas of our firm					
The level of entrepreneurial competence for our entrepreneurs has been very useful in setting the strategies in the firm					
High level of industrialization of our enterprise has assisted us in opening up of new markets in other countries					
Most of our managers have been very optimistic in creating and running of new ventures of business					
Internationalization of our firms has been supported with the large network of our teams					

7. In your own opinion, and on a scale of 1-5 what is the most likely channel to be used by SME Oil Distributors in the Internationalization process?

<b>General Service quality</b>	1	2	3	4	5
Direct exports with established subsidiaries in the international market					
Exporting to specific well established suppliers/Strategic Alliances					
Foreign Direct Investment in the host country/establishing a fully fledged organization in the international market					
In stages from inception locally, exporting from their home country, establishing alliances abroad before establishing subsidiaries in the international market.					

8. Do you consider the following factors as important in successful internationalization and growth strategy of your firm? (Rank according to scale:-1 for **Not at all** and 4 for **Most important**.)

	<b>Not at all</b>	<b>Least Important</b>	<b>Moderately Important</b>	<b>Most Important</b>
Senior Management Commitment to high market penetration				
Management Understanding of market dynamics				
Planning Prior to Implementation of New strategies				
Integration Between Business and customer outreach				
Alignment of growth strategies with the Organization's Objectives				

Executive and Line Management Ownership and Accountability for Implementing, Monitoring and Reporting on market share growth				
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**Thanks for Your Cooperation and Participation!**

## **Appendix II: List of Oil Marketing Firms**

1. Alpha Logistics
2. Bahari Resources
3. Centric Energy Limited
4. Kenya oil company
5. Total Kenya limited
6. Agip Kenya limited
7. Engen Kenya Limited
8. ExxonMobil Kenya
9. Kenya petroleum refineries
10. Mobil Oil Kenya
11. Palmac Oil Refineries
12. Prime Fuels Group
13. Petroleum Institute of East Africa
14. Shell Company
15. Shell chemical company of East Africa Ltd
16. Kenya oil company Limited
17. Jovenna East Africa Ltd
18. Ministry of Energy
19. National Oil corporation of Kenya
20. Chevron Limited
21. Kenol Kobil Ltd

