

**INTERNATIONALIZATION AND EXPORT PERFORMANCE OF
SME's IN GIKOMBA MARKET IN NAIROBI, KENYA**

BY

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

NOVEMBER, 2016

DECLARATION

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

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

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ACKNOWLEDGEMENT

I owe my gratitude to all the people who contributed tremendously towards the completion of this Research Project. Special thanks go to my supervisor and moderator, Dr John Yabs and Professor Martin Ogutu for their material and moral support. They are outstanding, easy to work with lecturers with whom I shared passionately.

It is a great pleasure to acknowledge my dad Meshack Maleche and my mum Elizabeth Maleche for their encouragement throughout the entire MBA program.

Special thanks to my wife, Jully, for her patience, understanding and support during the whole period of my studies. I extend my gratitude to my loyal MBA friends and colleagues for their material and moral support during the period.

Finally, thanks to God almighty for his love that endures forever.

DEDICATION

This project is dedicated to my dear wife, Jully Chelagat, for her care plus endurance during my long periods of absence and her inspiration for the past three years, in my studies for the Master of Business Administration. She has been a great enabler as I juggled the two roles of student and supervisor at my workplace. Special dedication to my four angels; Ivy, Gabriella, Jeremy and Rodney for their discipline and understanding over the study period.

ABSTRACT

There is strong empirical support for an association between characteristics of an SME's entrepreneur and internationalization, yet the impact of environmental perception remains relatively under explored. The study sought to establish the relationship between internationalization and the export performance of SMEs in Gikomba market. The study adopted a descriptive survey research design and was guided by the following objective; to establish the relationship between internationalization and export performance among SMEs in Gikomba market. The study utilized primary data which was collected using a semi-structured questionnaire. From the target population of 208 businesses a 30% random sample of 63 respondents was selected for the study. A 5-point Likert scale was used to measure the output of each item answered by the participants. Descriptive statistics were used to describe (and analyze) the variables numerically. A multivariate regression model was used to analyze the relationship between internationalization and export performance among the SMEs. The outcome of the study establishes a relationship between internationalization and export performance with the regression analysis yielding Coefficient of Multiple Determination (R^2) of 0.871 implying that up to 87.1% of the variation in Export performance can be attributed to the internationalization strategies adopted by the SMEs in Gikomba market. The p-value of 0.001 indicates that the impact of internationalization practices on Export performance is significant at 95% confidence level among the SMEs in Gikomba market. The study recommends that more SMEs in Kenya adopt internationalization approaches to build their core competencies. The study further recommends that firms in Kenya put in place mechanisms to facilitate international trade through integration and collaboration given the fact that network relationship plays a pivotal role in the process of internationalization. The study was limited to the extent that, a study of this magnitude should have included a survey of a sizeable number of firms. However time and material resources did not make this feasible. On the other hand, some of the respondents were non-committal posing major challenges in the field during the data collection costing the researcher since he had to do a lot of data editing after field work. The study recommends further research to focus on the critical success factors in the implementation of internationalization practices. Studies involving confirmatory factor analysis will need to be carried out to further test the model so established and to confirm the findings of the study. Further studies can be conducted to test and confirm the factor loadings in different firms so as to establish the validity and strength of the model. Moreover, further research efforts to identify optimal internationalization practices and on the possibility of setting local benchmarks. The need for further research into this aspect of international business management is further compounded by the fact that exports performance optimization among SMEs is a relatively new phenomenon in Kenya.

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ABBREVIATIONS& ACRONYMS

EPC: Export Promotion Council

FDI: Foreign Direct Investment

GDP: Gross Domestic Product

IET: International Entrepreneurship Theory

MNEs: Multinational Enterprises

SMEs: Small and Micro-Enterprises

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Performance of a firm in the export market is very important as it acts as a safeguard to its position in the market and also increases its possibility of survival (Nathaniel, 2010). With the ever increasing level of competition in the global market the major model used to enter the international markets is through export operations (Leonidou, Katsikeas & Samiee, 2002). Due to this researchers have concentrated on trying to get a deeper understanding of performance of the export market (Debrulle & Maes, 2015; Olesen, 2013). For firms to identify and take advantage of new market opportunities it's a prerequisite that they engage in export entrepreneurship (Yeoh & Jeong, 1995). Therefore corporations that readily take risks in introduction of new innovative services and products before their market competitors, corporations that are aggressive in their competition environment and those firms where autonomous behavior is encouraged are able to take advantage of opportunities in the export market and there export performance is greatly enhanced (Kropp, Lindsay, & Shoham, 2008).

The study was informed by 3 theories; the International Entrepreneurship Theory (IET), Network theory, and Economic Approach – Foreign Direct Investment Theories (FDI). In addition, the study drew from the following key models; International Business Strategy Model and the Uppsala internationalization Model that are both based on contingency and alignment theory. According to the network theory, the central argument states that present day high technology corporations don't display the incremental process; instead they attain accelerated internationalization by way of and resources of network partners

(Mitgwe, 2006). The international entrepreneurship theory (IET) on the other hand predisposes that, the main driver of the internationalization process is the entrepreneur. He possesses both enough information and the skills required to measure the opportunities that may exist in the market with the ability to create stable associations with customers, media, government, suppliers and also with other firms. He normally also possesses both objective and experimental knowledge. Economic Approach theory assumes that companies will make investments in foreign countries with an aim of lowering their transaction expenses. This is achieved through two effects the ownership effect and the location effect. Where value adding activities take place is determined by the location effect while control and ownership of these activities is explained by the ownership effect (Buckley & Ghauri, 1999).

Companies that try to enter the international market without sufficient knowledge end up encountering competitive disadvantages (Hitt et al., 2006). Business owners can improve their ability to evaluate opportunities by acquiring knowledge about their businesses' environment and also from experience (Cassar, 2014). Their experience acts as a conduit to minimize the number of unknown variables for the owners when they face new yet almost similar possibilities (Chandler, 1996). This enhances the confidence of business owners and ends up refining their cognitive reasoning (Cassar, 2014). This study will concentrate on the management and start-up experience.

Notwithstanding the part played by Small Micro Enterprises in the Kenyan economy, the internationalization restrictions faced during their operation are numerous which has negatively affected their performance in the export market. This is a major concern for any developing economy which lacks the required technology and infrastructure to attract large scale commerce investments in big numbers. A majority of SME's in Kenya do not

have the required capacity especially in terms of qualified human capital to run their operations in the international arena. Due to this they have been unable to enhance their competitiveness in the export market. Another challenge that most SME's in Kenya encounter is an inadequate capital base since most of them are unable to meet the requisite collateral in order to obtain funds from banks. Even if an SME can provide the collateral it is often insufficient compared to what they need to enter into the export business since its very capital intensive. We postulate that being exposed to either greatly benefits the owners of the start-up businesses when they decide to delve into the international market regardless of the mechanism they use to do so. Such business owners who have practiced the management of a business have obviously gained insight in management which is very important to their endeavors in the international market. Thus it has been suggested that researchers should try modelling the impact of export orientation dimensions on the performance of firms so as to bring out the major contribution of internationalization to the export performance of SMEs.

1.1.1 Concept of International Business

We can define international business as a wide range of across the border exchange of services, resources or goods between two or more countries. This type of exchange does not only involve exchange of physical goods and money but also includes international transmission of a various range of resources such as human capital, intellectual property (which includes data, brand trademarks, patents and copyright) and contractual liabilities and assets (this may include the right to use a foreign asset or execution of complicated financial instruments (Fritz & Davis 2010).

The players in the international business arena range from one-person corporations acting as an importer or exporter or it can be a multinational company having thousands of

employees and operating in many different nations worldwide. International business can also be defined in broader terms as involving across border for-profit transactions as well as transactions that are not motivated by financial gains (this include political factors, corporate social responsibility and triple bottom line) which affect the firms future. (Colombo & Cassar, 2014).

Coviello and Mc Auley (1999) asserted that literature on internationalization heavily relies on large multinational corporations as the common analysis unit despite the fact that Small and Medium Enterprises display a lot of activities in the international market. With most of the literature concentrating on this large firms it raises a major concern since basically smaller companies differ from large companies in terms of ownership, scale of operation, scope of operation, managerial style and independence (Schollhammer & Kuriloff 1979). They also have structures that are less sophisticated, rigid and complex than those of larger corporations (Julien ,1993);

Taking internationalisation in context Calof (1994) emphasized that the size of a firm is not necessarily an internationalization barrier and that small and medium size enterprises have found distinctive ways to prevail over their 'smallness'(Bonaccorsi 1992). Nonetheless, SMEs still encounter various internal challenges that slow down their growth in the international market context these include limited capital, experience, information resources, management and time, (Buckley 1989). In addition, external barriers may be experienced mostly in the form of well-established corporations or the state (Acs et al. 1997).

Madsen and Servais (1997) advocated for the separate analysis of the process of internationalisation for small firms and for large firms as it's often not easy to generalise recommendations and patterns across both large and small firms since the influence of

the founding members reduces as the company's size increases. Evidence from Pointon (1977) in the United Kingdom and Czinkota (1982) in the United States of America proposes that around 20% of corporations that are large in size contribute to 80% of the country's export sales which is in agreement with the Pareto effect. This further supports the need for extra studies to be conducted on the export activities of small and medium sized enterprises.

1.1.2 Internationalization of SMEs and Export performance

There exist 2 main viewpoints on the internationalization process of SMEs. The first viewing the internationalization of SMEs as a sequential process that starts at the local market and leads to the international market following the learning process in which the knowhow of new markets is obtained and resources are allocated on an increasing basis to those markets resources are allocated on an increasing basis to those markets. (Johanson&Vahlne 1990). The second viewpoint borrows from the international entrepreneurship theory which postulates that a corporation can be born global (Rialp, Rialp, and Knight 2005)

The state of the current research proposes that, in established industries which operate in static environments or environments with minimal changes the sequential viewpoint is the most appropriate while in developing industries the 2nd perspective puts forward a better understanding of the internationalization process. This review of how the two concepts can be applied is based on the observation that during the early stages SME's internationalization can be governed by the industries life cycle stage. (Andersson,2004). The first sector concentrates on the internal factors influencing internal organization, particularly when the incremental learning process is in the initial stages of internationalization. Within this sector certain precise contributions can be pointed out

which include: region-centrism ,“lifecycle model” (Vernon, 1966), geo-centrism model” ,the “ethno-centrism, poly-centrism, (Wind, Douglas & Perlmutter(1973),the “Uppsala model” (Johanson & Vahlne, 1977) and the “innovation model” (Rogers, 1962) These current study will concentrate on the “Uppsala model,” in coming up with its theoretical framework.

Export performance is described as the degree to which a company is content with their market share and sales performance in the export market (Nathaniel, 2010). The latest reviews of literature divulged the fact that different external export environment and internal company specific determinants drive the performance of exports (Sousa, Martínez-López and Coelho, 2008); Academic work puts forward the argument that the success of exports depends on the company’s strategy, structure, capabilities, orientation and its export environment market conditions. (Hultman et al,2009); Katsikeas et al)2006). Piercy, Kaleka and Katsikeas (1998) assert that key company skills and resources such as information, customer management and relationship skills are vital in determining export success.

1.1.3 SME Sector in Kenya

In Kenya, Small, Micro and Medium enterprises are mentioned severally. They are classified under the informal sector which is normally referred to as the Jua Kali industry. Their name is derived from the fact that they operate in the open sun with no roof. The sector provides employment to over 80% of the Kenyan workforce and has thus attracted a lot of government attention due to its potential to tackle the youth unemployment problem in the Kenyan economy. Statistics show that 65% of the Kenyan population is youthful and not employed. During the year 2008, Kenya encountered the post-election violence which resulted to the death of more than 1,000 persons and over 500,000 were

displaced. While from afar it looks like a political affair when we make a close observation the major cause that fuelled the violence was poverty and youth unemployment. This realization has rejuvenated the government's resolution to solve the unemployment crisis by instigating initiatives such as kazi kwa vijana. (Economic Review, 2014).

In the governments session Paper 2 of the year 1992, Jua Kali and Small Enterprise Development in Kenya, the state recognizes the Jua Kali and small-scale enterprise sector for support so as to assist it transform into the formal sector which will enable it to rank as a major player in economic growth and creation of new jobs. Jua Kali can be defined as the full range of enterprises that employ between 1-49 people in all sectors of the economy. The key components of the states' Jua Kali strategy include access to work sites, managerial and technical training, involvement in technological innovation, and the creation of an environment that is both positive and enabling which will spur growth in the Jua Kali industry. The economy of Kenya has rebounded and has been growing at 3% per annum after a reduction in growth due to the 2007-2008 post-election violence. The Kenyan economy growth has generally been on an upward trend from a negative growth in the year 2001 to a 7% high in 2007 before slumping again in 2008. Vision 2030, Kenya's blue print on development estimates a 10% economic growth rate by 2012 to prop up the vibrant economy towards industrialization by the year 2030. A major support pillar to achieve this goal is the SMEs in the informal sector (Economic Review, 2014).

1.1.4 Gikomba Market in Kenya

Gikomba is Kenya's largest open-air market and receives tens of thousands of visitors trading, buying goods, hawking, meeting or just trying to survive. While most of the businesses in the market are informal, there is a mushrooming of SMEs (small micro-

enterprises) in the market which are more formal. The main challenge facing the traders at Gikomba market has been traditionally lack of or poor international market access. The entry of internationalization particularly in the last three decades therefore has been a major boost for traders in this market hence the rapid uptake of international trade and transactions in place today at the market (Rahman, 2012).

Gikomba market takes a central role in propagating the Kenya's economy. A key agenda of the 2030 vision is the promotion of entrepreneurship and creation of jobs in the informal sector. The government is particularly keen on empowering the youth and women by encouraging them to run small business units in order to achieve this goal hence the significance of Gikomba market (Economic Review, 2014). Gikomba Market occupies both sides of the Nairobi River in Kenya's capital city and then extends into the informal settlements of Majengo and Pumwani which are among the one hundred and thirty slums located in the city. It is here that fifty thousand of the one million eight hundred slum dwellers live and work. You can obtain anything you need or want in Gikomba ranging from food, hardware, fish, household goods, vegetables and its most popular brand-second hand clothes or 'mitumba' as it's known locally. This clothes and shoes are exported to Kenya via ships in huge quantities which are then sold at Gikomba either in bales or individual items. They are sold from either makeshift stalls, carts or barrows (Ross & Smith, 2006).

1.2 Research Problem

Cadogan, Hultman, Robson & Katsikeas (2009) asserts that the product strategy fit and its outcome performance is largely dependent on a range of environmental factors. Balabanis & Katsikea (2003) observed the idea of entrepreneurship and concluded that a company's level of entrepreneurship inclination most of the time drove export market

performance irrespective of the different export environmental conditions. Consequently there now exists an emerging area of study known as export entrepreneurship (Yeoh & Jeong 1995; Ibeh 2003). Concentrating on the causes of good performance in the export market performance, the last fifty years have seen an increase in the number of variables that are to be studied (Leonidou et al, 2010). Estimates in Kenya place the percentage of the number of businesses that the informal sector contributes at 98% of all businesses in the country. They also take in at least 50% of all fresh nonfarm job seekers, have an impressive growth rate of 13-14% in employment, contribute 30% of all employment in Kenya and contribute 3% of Kenya's Gross Domestic Product. Kenya has to its advantage officially recognized the informal sector in its development policies unlike most developing countries and not only a survival based residual employer of Kenya's poor population

Various studies have been conducted on internationalization and export performance. Nathaniel (2010) carried out a study on entrepreneurial-oriented behavior and export performance of firms in the UK and revealed that; company's overall export level orientation is a major contributor to export success. Mehran & Moini (2012) considered the attitude of managers on profits and risks in exporting. They postulated that managers of exporting firm's contribution level towards the growth and profitability of such a company is restricted until they have explored the feasibility of the export business or gain experience in exporting Chen and Liang (2011) undertook a study on organizational performance and Knowledge evolution strategies by use of analysis on the strategic fit of the firm. They concluded that the crossover and mutation of knowledge have a considerable effect on the various organizational performance aspects. Yin & Zajac (2004) who conducted a study on the fit between governance systems and strategy

concluded that fit results to superior performance in firms and that the association was significant. Loius & Francois (2007) who conducted a survey from a contingency perspective surveyed one hundred and seven manufacturing firms in Canada and carried out a correlation analysis which pointed out that strategic fit had a positive effect on the SMEs involved in the manufacturing business in terms of financial performance, growth and productivity. However these studies are limited to the extent that they only examined the profile deviation of the strategic fit.

Locally, Gitau and Otuya (2014) investigated the determinant of the internationalization of SMEs in Kenya and revealed that; the characteristics of the entrepreneur was highly associated with the SMEs internationalization, on the other hand the external business environment and the characteristics of the firm were also found to be significant. Wanjau (2011) carried out a descriptive survey on how effective strategies used by the EPC (export promotion council) in supporting Kenya's Small and medium enterprises (SMEs) that are export oriented and found identified strategies used by the EPC in assisting export oriented SME's include; Development of Exporting Skills, and Trade Information & Delivery Services. Kimole (2009) investigated the importance of training on skills that are paramount for the effectiveness of export marketing by SMEs that export products that are locally manufactured in Kenya and revealed that, finances and management skills in the long run determine their survival and the firms cannot operate without since they affect the importing and exporting of the SMEs.

While literature on export performance and SMEs abound, most of the studies have focused on barriers to export rather than incentive programs aimed at supporting companies in developing market orientation as a capability. There exists a strong pool of empirical evidence that supports the relationship between internationalization and the

characteristics and personality of an SME entrepreneur notwithstanding the influence of the environmental perception at the international level remains relatively under explored. While most researchers can agree that export performance is a multidimensional construct that is hard to conceptualize, this present study departs from earlier studies by using a holistic method to determine the impact of internationalization on export performance using both subjective indicators and objective, i.e. Perceived performance and financial performance. To fill this gap, the study intended to investigate the influence of internationalization on export performance of SMEs in Gikomba market. The study sought after answering the following research question; what is the effect of internationalization on the export performance of SMEs in Gikomba Market?

1.3 Research Objective

The study sought to establish the association between internationalization and the export performance of SMEs in Gikomba market.

1.4 Value of the Study

On the theoretical stage, the results of this project will be in agreement with the current existing literature on internationalization and export performance while at the same time on the other hand some of the findings in this study may oppose or challenge some concepts of the existing literature. This study will make three main offerings to the existing literature. The first being that we will look into the little researched on topic of internationalization. By looking into the effect of owner related knowledge reserve on SMEs export intensity. This will increase the comprehension of the drivers of the internationalization process among young entrepreneurs or potential entrepreneurs. Very few studies have been conducted on export intensity concentrated on entrepreneur associated knowledge reserve.

The current study also adds to the methodology knowledge reserve by providing extra information on the analysis and measurement of export performance and internationalization. The major contribution also includes provision of evidence of the relationship between collaboration and the performance to the literature in international commerce. It also contributes to the ever-changing capabilities, international entrepreneurship literature and trust as well as advocating for a re-conceptualized networking internationalization model

To the managers the study findings will be very resourceful to practitioners and strategic managers in SMEs in the following ways: To begin with, the association between export performance and internationalization are dependent on the company's international market orientation. The study also provides insight for marketing and strategic managers involved in international trade on how to design their international market orientation strategy in order to optimize export performance. Particularly for corporations that have enlarged their supply chains past the local markets, its paramount for them to enlarge their perception towards customers and suppliers. This will ultimately lead to the success of the firm.

On the policy level, the findings of this study will provide vital insights to policy makers at the national level on enhancing the competitiveness of SMEs in the international market. Given the centrality of entrepreneurship in Kenya's vision 2030, the study will provide backstopping to consultants, line ministries and allied state organs in formulating a robust SMEs strategy with regards to their performance in the international market.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews both empirical and theoretical literature from previous studies on internationalization and export performance. The chapter concentrates on; theoretical framework, internationalization of SMEs, internationalization and export performance, empirical studies available on internationalization and wraps it up with a summary of the literature review.

2.2 Theoretical Foundation of the Study

The process of internationalization encompasses the procedure by which firms progressively increase their involvement in the international market. The process is assumed to influence the pace and pattern of internationalization of companies (Johanson & Vahlne, 1977). There exist a number of models and theories that aim at expounding the process of internationalization with the most referred one being the Uppsala model. This sub-chapter constructs a theoretical model by borrowing from the International Entrepreneurship Theory (IET), Network theory and Economic Approach – Foreign Direct Investment Theories (FDI). In addition, the study will be informed by the following key models; the International Business Strategy Model and the Uppsala internationalization Model that are both based on contingency and alignment theory.

2.2.1 Network Theory

The fundamental premise is that present day high technology companies do not display the incremental process; instead they are able to realize faster internationalization by way of the resources and experience of network partners (Mitgwe, 2006). All companies that

operate in any market are thought to be in a web of one or more networks through links to their customers, suppliers, other market actors and subcontractors (Johanson & Mattsson, 1988). Emerson (1981) defines a network as being composed of 2 or more connected business associations, in which the exchange relationship among the business entities that are seen as collective players. Network theorists envision a company's internationalization as a natural progression involving relationship networks with foreign companies and individuals (Johansson & Mattson, 1988). The perception on networking is that it's a spring of knowledge and information concerning the market, such information will take ages to gather. Networks are thus mechanisms used to bridge and facilitate rapid internationalization. The network approach emphasizes on bringing the parties involved closer by use of knowledge acquired by a firm through the establishment of close relationships with suppliers, customers, the industry, other market actors, public and regulatory agencies as well as distributors. The basis of these relationships is built on knowledge, mutual trust and commitment towards each other (Mitgwe, 2006).

2.2.2 International Entrepreneurship Theory

The IET states that the main driver of the internationalization process is the entrepreneur. The entrepreneur has the skills and sufficient information to analyze any opportunities that present themselves in the market and also has the ability to make stable associations with suppliers, government, media and other firms. The entrepreneur also possesses objective and experimental knowledge. Being a seeker of risks he is able to use the available in the most efficient way such that he is able to realize competitive advantage. The international entrepreneurship theory also states that the entrepreneur must possess international experience and should also be a seeker of openings in the market in doing so he is able to take advantage of opportunities that present themselves in the market.

Zahra and George (2002) state that the phrase “international entrepreneurship” was first used by Morrow in 1988 in a short article. Morrow (1988) put forward that technological advancements, a general decline in cultural barriers and an increase in awareness of culture has resulted to the opening of foreign markets that were once considered remote to all types of firms that is small companies, well established companies and also new entrants. Not long after that McDougall’s(1989) conducted an empirical study that compared both international and local new businesses which opened up the way for the international entrepreneurship academic study. McDougall and Oviatt’s (2000) also defined international entrepreneurship as encompassing innovativeness, risk seeking and proactive behavior that surpasses national boundaries and aims at creating value in firms. This is the most widely accepted definition. Later they embraced a more in-depth idea of entrepreneurship in defining it as the enactment, discovery, exploitation and evaluation of any opportunity that presents itself across national boundaries that result in creation of future services and (McDougall & Oviatt, 2005).

2.2.3 Economic Approach Foreign Direct Investment Theories

Classical international theories state that, opportunities in demand and supply facilitate the company’s activities involving international transactions. They make the assumption that opportunities exist in international exchange and that internationalization of companies mainly comes up to due to the structure of the industry and conditions in the market and not from individual managerial influences. According to classical theories direct investments are made by large oligopolistic companies which possess a considerable market share, size and resources. When confronted with saturation in the market or intense local competition such companies possess the ability to recognize and take advantage of exchange opportunities in other countries they aim at increasing their

profits by entering foreign markets. On the other hand companies that don't possess economies of scale, differentiation in their products or absolute control of costs have to acclimatize themselves to their local market. Therefore such small corporations can't internationalize due to their limited resources, limited information and their size disadvantages (Brush, 1995).

These neoclassical theories displayed such limitations in understanding the association between companies and the assumption of economic systems that are frictionless. This prompted some academicians to explain the FDI (Foreign Direct Investment) of multinational companies (MNCs) by the application of the internationalization and transaction cost theory. They make the assumption that a company will invest in foreign nations so as to bring down their transaction costs through two methods or effects: the ownership effect and the location effect. The location effect is used in deciding at which place value adding activities will be performed while the ownership effect determines who possess ownership and control of these value adding activities (Buckley & Ghauri, 1999). The Internalization theory puts up the argument that investments in foreign countries is driven by attempts to safeguard assets including information (Casson, 1938) technology, skills, or products, or so that they can obtain control over resources (Rugman, 1980). By doing so they protect the company from uncertainties and also reducing the cost of transaction. Companies are assumed to be rational while assessing the benefits and costs of both external and internal costs of transactions and also when such decisions are being implemented. (Dunning, 1988).

2.2.4 International Business Strategy Model

Advanced by Grant (2005), this model puts forward a combination of a company's strategy on international business and factors that influence such a strategy. The internal

factors influencing the strategy on international business are capabilities and resources. We must clearly distinguish firm's capabilities from its resources; while resources are the firm's productive assets capabilities are what the company can do. Competitive advantage does not automatically arise from individual resources but rather from such resources working together to bring about the creation of organizational capabilities (Grant, 2005). These capabilities are the building blocks of superior performance.

Grant (2005) asserts that there exists 3 resource types and for proper resource and capabilities analysis it's paramount that one understands their potential to create competitive advantage. According to Jansson (2007) for the achievement of an internal strategic fit for International Business, it must be built on a proper combination of capabilities and resources to enable its execution. Its however not sufficient to just have a properly functioning link between the internal environment and strategy in addition it must possess effectiveness. In other words the strategy must be valuable to customers. It also must be competitive this is where the association to the external environment kicks in especially in regards to both customers and the competition in the market. Thus to attain a competitive advantage that is sustainable an external strategic fit is a requirement. This means that there must exist a fit between the external environment and the international business strategy of a multinational enterprise

From the Institutional viewpoint the external environment can be described as the institutions external setting (Jansson, 2007). This setting is composed of 2 major parts; societal sectors and organizational fields .One must properly understand the international business strategy model to ensure that activities conducted in emerging markets are successful and the firm is able to acquire both societal and competitive advantage over its major competition.

2.2.5 The Uppsala Internationalization Model

Johanson & Wiedersheim-Paul (1975) were the first to develop the Uppsala model's theory during their study of four firms in Sweden. The Uppsala model is built on the organizational behavioral theory (Cyert & March, 1963). The model states that the internationalization process is seen as a causal cycle whereby the company's knowledge is postulated as an explanatory variable. Firms normally first develop in their local markets and internationalization is seen as a result of later incremental decisions. Such decisions are however limited by 2 factors that is resources and information. The major barriers to entry into international markets are scarcity of resources and lack of adequate and sufficient information. The Model concentrates on the individual firm's development by use of continuous integration, acquisition and operational knowledge so as to achieve success in rising commitments in international markets (Johanson and Vahlne, 1977).

The Uppsala model states that there are two aspects of its structure. The initial one being the state aspect which involves market commitment and market knowledge with the second being the change aspect which involves its current activities and commitment decisions. The model puts forward the thought that the state aspect involves commitment of resources to international markets and knowledge on the market is basically knowledge of international markets and their operations. On the other hand the change aspect involves the extent of the decision to commit current firm's resources and production. In summary the Uppsala model market commitment and market knowledge are assumed to influence the current activities and commitment decisions. In addition to this it also influences the market knowledge and also commitment (Johanson & Vahlne, 1977).

The Uppsala model involves developing foreign operations in minor steps instead of the creation of a large international production investment at the start. In most cases company's start by exporting through an agent, The Company then establishes a sales subsidiary and finally begins production in the foreign country Johanson & Vahlne(1977). This model makes an assumption that absence of knowledge that's relevant about a market in a foreign country may act as a major impediment when developing firms in that foreign country. The Uppsala model advocates for a gradual increase in the internationalization and ends up becoming a multinational company (Johanson & Vahlne, 1977).

2.3 Internationalization of SMEs

The internalization of Small and Medium sized enterprises is a core element of a company's growth and also economic development. Economic growth greatly benefits from internationalization (Jaffe & Pasternak, 1994) and also a nation's international reputation and wellbeing, Diehl, Leibold, Koeglmayr, &Muller(1984). For a small firm intending to grow part of its strategic choice should essentially include internationalization (Skrt & Antoncic, 2004). A number of theories have been put forward trying to explain why companies involve themselves in international engagements and the entrepreneur's part in this process. The key variable in the internationalization of SMEs is the entrepreneur since he is the company's decision maker (Glancey, 1998)

There exists strong empirical evidence which confirms the relationship between internationalization and the characteristics of a Small and medium sized enterprises entrepreneur, however the impact of environmental viewpoint remains under-explored.(Manolova etal. 2002). A company's proclivity to venture into international

markets is directly and positively related to the risk tolerance level of its entrepreneur (Wiedersheim-Paul et al, 1978). This is due to the fact that international engagements are not for the risk neutral or risk averse firms since they involve a higher amount of risk compared to selling locally which may stop companies from initiation, development and sustenance of international engagements. (Wiedersheim-Paul, Olson, & Welch, 1978).

The moment an entrepreneur assumes risk the level of risk attached to export engagements is greatly reduced. Due to this a risk seeking entrepreneur is more probable to respond favorably to opportunities in the export market and become an exporter as opposed to risk averse entrepreneurs. (Leonidou et al., 1998). On a company's entry to foreign markets various risks such as financial, political, physical and social risks can hinder its move towards internationalization.

2.4 Internationalization and Export performance

Morgan, Kaleka & Katsikeas (2004) put up the argument that resources(e.g. finances, experience) and capabilities (e.g. access to information on exports) that are accessible to firms engaging in exports helps them gain a positional advantage in the export market and taking into effect of competition in the export market such resources and capabilities greatly assist the performance of the export firm. To attain international success a start-up must be both efficient and effective when acquiring and managing resources and also (Burpitt & Rondinelli, 2000)

If a new venture in the export market acquires this abilities it will have a smooth sailing when dealing with the normal challenges affecting internationalization (Coeurderoy et al., 2012), such include problems associated with internal coordination (Manolova et al., 2002), the disadvantages of being in a foreign country and a lack of knowledge in the

foreign market (Eriksson and Chetty, 2003;). Notwithstanding the theory used in exploring new ventures in the international market e.g new venture theory versus process theory of internationalization (Autio et al., 2000)., knowledge, and the mechanism that knowledge can be acquired, transferred and exploited are considered paramount in the success in the international arena and also in acquiring competitive advantage (Yu et al., 2011).

There exists a need to thoroughly study knowledge resources that will assist the internationalization process of start-ups. In this study the key elements that were identified include: internationalize successfully. Within this study, we consider the start-up experience, management experience and the start-ups professional networks. These represent knowledge enabling capabilities or knowledge sources that reinforce and permit internationalization of new ventures (Sleuwaegen and Onkelinx, 2014). Successful evaluation of international business opportunities is vital to owners of businesses in small economies. (Julien & Ramangalahy, 2003). For startup firms, the knowledge of owner is a major influence of the type of national and international opportunities that will be explored (Minniti & Bygrave, 2001). The more knowledgeable the owners the greater their perception of entrepreneur opportunities and also their successful exploitation and evaluation (Colombo & Grilli, 2005)

2.5 Empirical literature

Maes and Jonas (2015) did a multiple case study on Internationalization of Start-ups'. And the influence of the firm Owners' Management Experience, Professional Network and Start-up Experience on Export Intensity among IT firms in Belgium and found out that; Management experience has a positive relationship with networking while there exists a negative relationship between professional networking and start up experience.

Burgel and Murray (2000) studied technology-based startups based in the United Kingdom and adopted the 'organizational capability perspective', in which resources that were available were compared with the foreign customer needs. This was done in order to develop an all embracing explanatory perspective Barkema and Vermeulen (1998). Zahra et al. (2000) used a knowledge based framework to give explanation on internationalization decisions of new ventures. The author makes use of the 'knowledge-based view'. Peng (2001) builds on the resource based view of the firm (Barney, 1991). In doing so, they link the internationalization pattern of new ventures to the presence of imperfectly imitable, non-substitutable resources, such as technology, rare, and valuable.

Mehran & Moini (2012) did a measurement of managements' attitude on profits and risks in exporting. They put forward an argument that the level of management contribution to the exporting company's profits and growth is minimal until they are able to check the viability of exporting or in gaining export experience. Chen and Liang (2011) undertook a study on the strategies under Knowledge evolution and its relation to a firm's performance. He used a strategic fit analysis and discovered that cross over and changes of knowledge have an influence on the different organizational aspects

Yin & Zajac (2004) studied the fit between governance systems and strategy and concluded that fit results to better performance and was also significant. Loius & Francois (2007) did a survey from a contingency viewpoint on one hundred and seven Canadian manufacturers after conducting an analysis of data via correlation analysis the results showed that strategic fit has a positive influence on how SMEs performed on different fronts such as productivity, growth and monetary(financial) performance. These studies are nevertheless limited to the extent that they looked only at the deviation of the profile strategic fit perspective.

2.6 Summary of Literature Review

The resulting research has its base on the summary of the literature present in this subsection. The review took into consideration empirical studies published in journals from 1970-2015. The review began by examining the concept of internationalization and export performance. The chapter then moved into the theoretical frame work of the study. Key theories discussed in this section include; the International Business Strategy Model and the Uppsala internationalization Model.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter concentrates how the research was conducted in terms of the research design, sampling size, sampling frame, population, data collection and analysis methods that were utilised in this study.

3.2 Research Design

A descriptive survey design was adopted in this study. This type of design helps a researcher in obtaining vast data amounts from a considerably large population in an easy, economical and highly effective way by use of questionnaires. A descriptive survey design also helps a researcher in obtaining data that's qualitative in nature, such data can then be analysed by use of inferential and descriptive statistics. (Saunders et al., 2002).

3.3 Population

According to (Mugenda & Mugenda, 2003) a population is a collection of all that follow given characteristics. During this study the population included all the Micro & Small Enterprises in Gikomba market. The target population at Gikomba market was separated into three areas including Shauri Moyo metal works Jua Kali market (911), Karioko(686) and Gikomba Kombo Muniyiri road (1,142

3.4 Sampling Frame & Sample size

A sample design can be defined as a definite plan for acquiring a sample from a specific population. It's the procedure or technique the researcher adopts during selection of items to be included in the sample. The sample design can also specify the number of items that

should be included in the sample in other words the sample size. Sample design precedes data collection (Kothari, 2011).

The sampling frame borrowed from the Nairobi City County License register of 2014. Although the register indicates that there are two thousand seven hundred and forty eight businesses registered within the three zones in which the study was conducted, only two hundred and eight of these businesses are licensed for manufacturing, workshops or industrial works. From this population of 208 businesses a 30% randomized and representative sample of 63 businesses was selected for this study. Mugenda and Mugenda (2003) asserts that a sample is classified as representative sample only if it contains at least 10% of the population under study therefore the choice of 30% is representative. The respondents in the study included the general managers of the SMEs.

3.5 Data Collection

Primary data was utilized in the study. Kothari (2011) states that primary data is data that is collected anew and for the first time, therefore making it original in nature. In this study semi structured questionnaires were used to collect data. The questionnaires had 3 sections. Section A had open-ended questions whose aim was to obtain general information on while Sections B and C on the other hand had questions directed at acquiring data on internationalization and export performance. The questionnaire was administered to the general managers of the SMEs since in majority of cases strategic planning falls in the domain of general managers in most SMEs. The participants responses were measured by way of a 5 point Likert scale.

3.6 Data Analysis

Kombo & Tromp (2006) describe data analysis as involving the examination of collected data and making inferences and deductions. Descriptive statistics was used to analyze and describe the variables in numbers. These include standard deviation, simple means, regression analysis and correlation analysis by use of the Statistical package for social sciences while factor analysis was used to look for the categories of the internationalization practices that had been adopted by the SMEs. The relationship between export performance and internationalization was analyzed via a multivariate regression model. Snijders & Bosker (2000) put forward the justification for a multivariate regression analysis by basing it on the following feature: that conclusion can be made about the various variables under study especially the extent of the correlation on the group and individual level.

In this study the multiple regression model used is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_k X_k$$

In which:

Y = Export performance (ROA)

β_0 = Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \dots$ = Coefficients of determination

X_1, X_2, \dots, X_k = Internationalization practices

3.7 Summary of Research Methodology

Methodologically the study adopted a descriptive survey while the main method of data collection was through self-administered questionnaires. Descriptive statistics were used to describe (and analyse) the variables numerically. A multivariate regression model was then used to analyse the relationship between internationalization and export

performance. This chapter thus presents a detailed discussion on the research design that was adopted, the population of the study, the nature of data and the research instrument used in the study. The chapter goes further to give a precise description of the data analysis method applied in the study.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The aim of this study was to investigate the effect of Internationalization on export performance of SMEs in Gikomba market in Kenya. Research findings are presented in this chapter by concentrating on; the respondent's demographic characteristics, data analysis and the respondents' suggestions that were in line with the precise aim of the study. Inferential and descriptive statistics were used in the analysis of data on export performance and internationalization strategies.

A total of Sixty three (63) questionnaires were issued to the sampled respondents. Of the 63 questionnaires that were issued fifty three of these were returned which translates to a response rate of 84.1 percent. A response rate of 84.1% is both representative and sufficient and falls within the stipulation by Mugenda & Mugenda(2003) that for a response rate to be sufficient for reporting and analysis it must be at least 50 percent, while a rate of 60 percent is good while a response rate of 70 percent and above is excellent.

4.2 Demographic Information

The demographic features of the individuals who took part in the questionnaire that were tested include; gender, academic qualification, work experience, and industry.

4.2.1 Gender of the Respondents

In tandem with the current push for gender mainstreaming in different sectors in Kenya, the study wanted to investigate the gender of the individuals who responded t the

questionnaire to shade light on the current state of gender balancing among the SMEs in Kenya. The results are henceforth presented in Table 4.1.

Table 4.1 Gender of the Respondents

Gender	Frequency	Percentage
Male	30	56.6
Female	23	43.4
Total	53	100.0

Source: Researcher (2016).

Though the resulting figures in table 4.1 designate that most of the respondents (56.6%) were males, the number of female respondents is substantial (46.4%) implying that SMEs in Kenya have put significant efforts in narrowing the gender gap in their workforce over the recent past. The findings thus affirm the fact that the opinions given are fairly representative of both genders with regard to the influence of internationalization on export performance among SMEs in Gikomba market.

4.2.2 Academic Qualification of the Respondents

In a bid to investigate the competency of the workforce, an inquiry was made into the highest academic level achieved by the respondents. The results are as displayed in table 4.2.

Table 4.2 Academic qualification

Academic level achieved	Frequency	Percent
Secondary	1	1.9
Diploma	9	17.0
Degree	23	43.4
Masters	18	34.0
PHD	1	1.9
Others	1	1.9
Total	53	100.0

Source: Researcher (2016).

The results in table 4.2 point out the fact that up to 77.4% of the people who responded to the questionnaire are at least graduate holders with 34% of them having post-graduate qualifications. The results imply that most SMEs having realized the importance of human resource development and its impact on productivity have focused on recruiting the best brains with an aim to boost their main competencies. The element that most of the respondents are graduates only reaffirms the validity of the data collected in the study given that the respondents are well grounded in strategic management issues.

4.2.3 Working Experience

The workforce working experience is positively correlated with strategic change management this is due to the fact that employees of any firm possess vital information regarding strategic management. Taking this into consideration the study aimed at finding out the amount of time in years that the various individuals who responded to the questionnaires had been employed in their present positions among the SMEs. The outcome is shown in table 4.3

Table 4.3 Working experience

	Frequency	Percent
1-5 yrs	.3	5.7
6-10 yrs	4	7.5
11-15 yrs	9	17.0
16-20 yrs	23	43.4
Over 21 yrs	14	26.4
Total	53	100.0

Source: Researcher (2016).

The results in table 4.3 show that a majority of the individuals who responded have over 16 years working experience in their respective portfolios with 26.4 percent having over twenty one years of working experience with only 5.7 percent having less than five years of working experience. This finding unmistakably shows that the information obtained in this study was from employees with vast experience and who are very familiar with the internationalization methods used by their respective SMEs.

4.2.4 Industrial Spread of the SMEs

An inquiry was made into the industry in which the SMEs fall with the aim of assessing the extent to which various SMEs have embraced export and international trade across various industries. The results are presented in table 4.4.

Table 4.4 Industrial spread of the SMEs

	Frequency	Percent
Manufacturing	13	24.5
Hospitality	2	3.8
Agriculture	13	24.5
Fisheries	3	5.7
IT/Technology	5	9.4
Juakali	17	32.1
Total	53	100.0

Source: Researcher (2016).

Going by the findings in table 4.4, most of the SMEs (24.5%) fall in the manufacturing and agricultural sector. Hospitality sector has the least number of SMEs at 3.8%. Apparently the findings portray a fair distribution of SMEs across various sectors in Kenya's economy. This implies that the potential for SMEs is generally high across all sectors in Kenya.

4.3 Specific Competitive advantages Enhancing Internationalization

When a company engages itself in the internationalization process they first identify their specific competitive advantages and then search for the advantages that are location specific and which provide the most conducive sale or production condition. Having this in mind the study investigated the degree to which various specific competitive advantages have enhanced internationalization processes among the SMEs at Gikomba market. The findings are depicted in table 4.5.

Table 4.5 Specific Competitive Advantages

Competitive Advantage	Mean	Std. Deviation
	Statistic	Statistic
Attractiveness of the foreign market	3.9245	1.19049
Fit between selected market and company's strategy	3.0566	.90756
Relocation of production to other locations so as to take advantage of government incentives	4.1321	1.07485
Retention of intangible and tangible assets within the company	3.8302	1.13909
Reduction in transaction costs	3.6038	.94746
Tangible and intangible assets	4.0943	1.24444
Compensates for liability of foreignness	2.4528	1.08426
Continual reinvestment	3.7547	1.38544

Source: Researcher (2016).

According to the findings in table 4.5, Relocation of production to other locations so as to take advantage of government incentives is the most significant specific competitive advantage that enhances internationalization among the SMEs at Gikomba market with the highest

mean at 4.132 followed by tangible and intangible assets with a mean of 4.0943. This implies that the two factors facilitate the process of internationalization to a large extent. The same findings indicate that the fact that the firm compensates for liability of foreignness influences the internationalization process among SMEs in Kenya to a small extent with the lowest mean at 2.4528.

4.4 Internationalization Processes

Internationalization has to do with global positioning. Cognizant of the above, an inquiry was made into the various internationalization processes that the firms have adopted to gain global leadership. The findings are presented in table 4.6.

Table 4.6 Internationalization Processes

Process	Mean	Std. Deviation
	Statistic	Statistic
Appropriately select assignees	3.9434	1.36459
Selection of candidates who are available or able to achieve certain unique goals	4.0566	1.27724
Difference between number of female and male expatriates and also local and foreign nationals	2.3208	.84974
Availability of Training and development initiatives	2.1321	.89952
Establishment of different training modules to the specific needs of employees	1.6981	1.06672
Across the culture training to assist in adjustment to host countries	1.7358	.96379
Adjustment to the new job.	3.3774	1.00434
Adjustment to relate with nationals of the host country	2.0755	.75572
Adjusting to the out of work environment	3.1132	1.23507
Performance appraisal for expatriates that are rigorous	3.1321	.94131
Willingness and ability to match expatriates living standard with that at their home country	1.6604	.89751
Allowances and incentives to retain staff required in the foreign engagement	3.1698	.97539
Selecting expatriates based on their technical capabilities	2.6038	.94746
Personality characteristics and adaptability	2.2264	.69729
Internal recruitment of expatriates by their direct managers	1.7736	1.28065

Source: Researcher (2016).

The findings in table 4.6 indicate that the Selection from a small pool of known candidates who are either available or unique to achieve a specific goal is the most significant internationalization practice adopted to a large extent by the SMEs at Gikomba market with the highest mean at 4.0566. Other key internationalization processes adopted to a moderate extent include: appropriately select assignees; adjustment to the new job; incentives and allowances are additionally created so as to attract and retain the talented people needed to foreign assignments; and rigorous and formal performance appraisal systems for expatriates at 3.9434, 3.3774, 3.1321, and 3.1321 respectively. Willingness and ability to make the "whole standard of living" of expatriates similar in the host as it was in the home country has been adopted to the smallest extent with the lowest mean at 1.6604.

4.5 Internationalization Strategies for SMEs

Internationalization is an essential strategic choice for small firm growth. In this regard, the study sought to examine the various internationalization strategies that SMEs have implemented to enhance their export performance. The findings are depicted in table 4.7.

Table 4.7 Internationalization Strategies

Strategy	Mean	Std. Deviation
	Statistic	Statistic
Concentrating on expansion to markets similar to their home base.	4.0755	1.37070
Concentrate on upgrading capabilities and resources to match international market demands.	2.3585	.96266
Tendency to shift to “Born Global status” or “instant internationals”	2.2075	.92733
Arbitrage and coordination across international borders	2.3208	.75380
Alliance network relationships and access to other firms’ resources.	2.7925	.71679
Production and offer of innovative and cutting-edge products.	2.1887	.85612
Using available market entry methods in different markets	2.8302	1.10481
Taking advantage of local assets where multinationals are weak	2.6038	.96754
Characteristic of entrepreneur or manager in terms of risk seeking innovativeness and proactivity	2.9245	1.05337
Making external relations a priority over internal assets and conditions	2.2830	.98795
Utilization of a company’s position in a network which enhances its strategic value	3.2830	1.00723
Network relationship take preeminence in entering international markets as opposed to strategic decisions	1.8679	.89952
A company’s entry mode and market choice is greatly dependent on their informal network partners	3.0755	1.39848
reliance on the Network theory which shows that a company understands that internationalization largely depends on both formal and informal networks	1.6792	.99564
The company’s network acts as a source of vast information which would otherwise take a a lot of time to accumulate and at a very high cost.	2.3208	1.08793

Source: Researcher (2016).

As depicted in table 4.7, the focus on expanding into markets similar to those of home base, using competencies developed at home is the most significant internationalization strategy implemented by the SMEs with a mean of 4.0755 indicating that it is adopted to a large extent. The utilization of a firm’s position in a network taking a specific strategic value, hence becoming a specific intangible; and the firm’s entry mode decisions and choice of markets are influenced by their network partners are moderately adopted with a mean of 3.2830 and 3.0755 respectively. According to the findings, the rest of

internationalization strategies have been adopted to a small extent with most of them having a mean ranging from 1.6792 to 2.9245.

For easy analyzability the data was reduced by Principal Component Analysis. Before factor extraction, there were fifteen eigenvectors which corresponded to the number of internationalization strategies adopted by SMEs in Gikomba market. Four principal components were extracted for internationalization strategies. Observation indicated that the four decision factors accounted for 95.48% of the total variation as illustrated in Table 4.8.

Table 4.8 Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	12.557	83.713	83.713	12.557	83.713	83.713	5.203	34.684	34.684
2	.832	5.545	89.258	.832	5.545	89.258	3.427	22.845	57.528
3	.532	3.550	92.808	.532	3.550	92.808	3.243	21.618	79.147
4	.401	2.673	95.481	.401	2.673	95.481	2.450	16.335	95.481
5	.197	1.316	96.798						
6	.141	.938	97.736						
7	.088	.590	98.326						
8	.060	.398	98.723						
9	.046	.306	99.030						
10	.038	.250	99.280						
11	.035	.234	99.514						
12	.029	.195	99.709						
13	.022	.144	99.853						
14	.015	.100	99.952						
15	.007	.048	100.000						

Extraction Method: Principal Component Analysis.

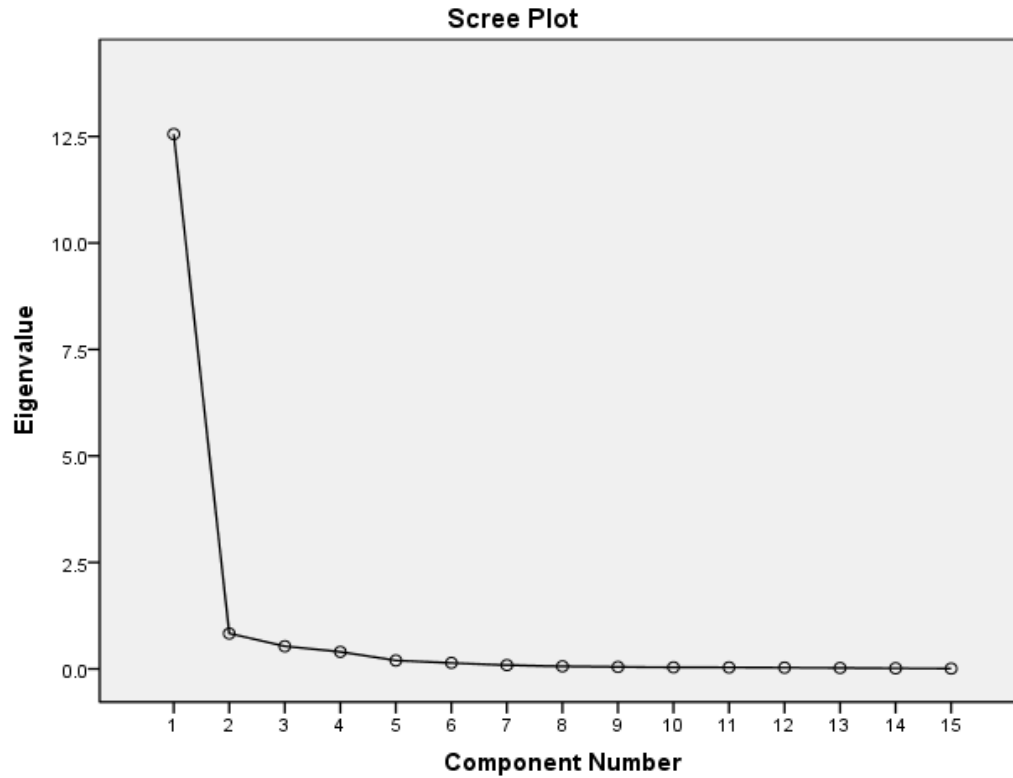


Figure 4.1 Scree Plot

Table 4.9 Rotated Component Matrix

	Component			
	1	2	3	4
Concentrating on expansion to markets similar to their home base.	.208	.922	.258	.104
Concentrate on upgrading capabilities and resources to match international market demands.	.493	.489	.481	.453
Tendency to shift to “Born Global status” or “instant internationals”	.703	.435	.398	.321
Arbitrage and coordination across international borders	.837	.160	.297	.355
Alliance network relationships and access to other firms’ resources.	.329	.392	.784	.328
Production and offer of innovative and cutting-edge products.	.735	.351	.460	.273
Using available market entry methods in different markets	.560	.559	.483	.302
Taking advantage of local assets where multinationals are weak	.642	.301	.265	.616
Characteristic of entrepreneur or manager in terms of risk seeking innovativeness and proactivity	.559	.522	.515	.303

Making external relations a priority over internal assets and conditions	.753	.280	.506	.233
Utilization of a company's position in a network which enhances its strategic value	.664	.535	.220	.414
Network relationship take preeminence in entering international markets as opposed to strategic decisions	.441	.292	.804	.246
A company's entry mode and market choice is greatly dependent on their informal network partners	.379	.705	.349	.445
reliance on the Network theory which shows that a company understands that internationalization largely depends on both formal and informal networks	.409	.212	.339	.801
The company's network acts as a source of vast information which would otherwise take a a lot of time to accumulate and at a very high cost.	.723	.423	.341	.365
+Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.				
a. Rotation converged in 7 iterations.				

Source: Researcher (2016).

The results in Table 4.8 indicate that, four internationalization strategies account for up to 95.481% of the total standard variances implying that the four internationalization strategies have the greatest impact on the Export performance of SMEs in Gikomba market. As indicated in table 4.9 (Rotated Component Matrix) these internationalization strategies are: Ability to coordinate and arbitrage across national borders; Focus on expanding into markets similar to those of home base, using competencies developed at home; Network relationships, as opposed to strategic decisions, play an essential part in a firm's international market entry; and The reliance on Network Theory which brings a recognition that firm's internationalization is a product of network relationships that are both formal and informal.

According to Table 4.8, the ability to coordinate and arbitrage across national borders is having the greatest influence on the export performance of the SMEs in Gikomba market since it accounts for up to 83.71% of the variation in Export performance followed by the focus on expanding into markets similar to those of home base, using competencies developed at home (5.545%). Network relationships, as opposed to strategic decisions, play an essential part in a firm's international market entry; and the reliance on Network Theory which brings recognition that firm's internationalization is a product of network relationships that are both formal and informal follow at 3.55 and 2.673 respectively.

4.6 Relationship between Internationalization and Export Performance

The main objective of the study was to determine relationship between internationalization and export performance of SMEs in Gikomba market. A multiple regression model was used to establish the relationship between internationalization (predictor variables) and Export performance (dependent variable). Using SPSS version 21 package, the resulting regression coefficients have been used to interpret the direction and magnitude of the relationship. The β coefficients show the responsiveness of the dependent variable as a result of unit change in each of the independent variables (Internationalization strategies). The error term ε captures the variations that cannot be explained by the model. Export performance (dependent variable) was measured by the annual percentage change in Export revenue. The Regression Model coefficients are is presented in Table 4.10.

Table 4.10 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin - Watson
					R Square Change	F Change	df 1	df 2	Sig. F Change	
1	.521 ^a	.871	.210	1.61948	.871	4.462	4	48	.001	1.423

a. Predictors: (Constant), The reliance on Network Theory

b. Dependent Variable: Average Annual percentage change in Export Revenue

Source: Researcher (2016).

From Table 4.10 the Coefficient of Multiple Determination (R^2 Square) is 0.871 implying that that the regression line is of “*High goodness of fit*” explaining up to 87.1% of the variation in Export performance. 12.9% of the variation could be due to other predictors not in the model.

Table 4.11 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	46.805	4	11.701	4.462	.001 ^a
	Residual	125.890	48	2.623		
	Total	172.696	52			

Source: Research data (2016).

a. Predictors: (Constant), The reliance on Network Theory which brings a recognition that firm’s internationalization is a product of network relationships, Focus on expanding into markets similar to those of home base, using competencies developed at home, Network relationships, as opposed to strategic decisions, play an essential part in a firm’s international market entry, Ability to coordinate and arbitrage across national borders.

b. Dependent Variable: Average Annual percentage change in Export

Table 4.11 indicates that the F static is 4.462 with a p-value of 0.001. This implies that the impact of internationalization on Export performance is significant since the p-value is less than 5%.

Table 4.12 Coefficients of the Independent variables

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations		
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part
1 (Constant)	1.070	.912		1.173	.002	-.764	2.904			
Ability to coordinate and arbitrage across national borders.	.681	.511	.068	.321	.001	-.864	1.192	.386	.046	.040
Focus on expanding into markets similar to those of home base, using competencies developed at home.	.952	.203	.039	.255	.001	-.357	.461	.321	.037	.031
Network relationships, as opposed to strategic decisions, play an essential part in a firm's international market entry.	0.649	.428	.525	2.485	.0002	.203	1.924	.515	.338	.306
The reliance on Network Theory which brings recognition that firm's internationalization is a product of network relationships.	-.217	.365	-.119	-.594	.001	-.952	.518	.320	-.085	-.073

Source: Researcher (2016).

As per the SPSS generated model coefficients in Table 4.12, the Equation $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$ becomes;

$$Y = 1.070 + 0.681X_1 + 0.92X_2 + .649X_3 - 0.217X_4$$

Where;

Y = Export Performance (Average Annual percentage change in Export)

β_0 = Constant

$\beta_1, \beta_2, \beta_3, \beta_4$, = Coefficients of independent variables

X_1 = Ability to coordinate and arbitrage across national borders

X_2 = Focus on expanding into markets similar to those of home base,
using

Competencies developed at home

X_3 = Network relationships, as opposed to strategic decisions, play an
essential part in a firm's international market entry

X_4 = Reliance on Network Theory which brings recognition that firm's
Internationalization is a product of network relationships

According to the regression equation established above, taking all the independent variables at zero, the level of Export performance of the SMEs in Gikomba market will be will be 1.070. The data findings analyzed also shows that holding all other independent variables constant, a unit increase in the Ability to coordinate and arbitrage across national borders will lead to a 0.681 increase in the Export performance of SMEs in Gikomba market. The regression line also indicates that, a unit increase in the Focus on expanding into markets similar to those of home base, using competencies developed at home will lead to a 0.952 increase in the Export performance of SMEs in Gikomba market. Keeping all other variables constant, a unit increase in the Network relationships, as opposed to strategic decisions, in the firm's international market entry will lead to an increase of 1.064 in the Export performance of SMEs in Gikomba market

Finally, a unit increase in the Reliance on Network Theory which brings recognition that firm's internationalization is a product of network relationships will lead to a 0.217 decline in the Export performance of SMEs in Gikomba market.

The results in Table 4.12 show that apart from Reliance on Network Theory which brings recognition that firm's internationalization is a product of network relationships; all the internationalization strategies have had a positive effect on the export performance of the SMEs in Gikomba market. According to the findings, the most influential internationalization strategy is the focus on expanding into markets similar to those of home base, using competencies developed at home with a regression coefficient of 0.952 and a p-value of 0.001. The ability to coordinate and arbitrage across national borders is the next most influential internationalization strategy that accounts for the variation of the Export performance of the SMEs in Gikomba market with a regression coefficient of 0.681 and p-value of 0.001. The third most significant internationalization strategy adopted by SMEs in Gikomba market is Network relationships, as opposed to strategic decisions, play an essential part in a firm's international market entry with a regression coefficient of 0.649 and p-value of 0.002. The last internationalization strategy affecting export performance is Reliance on Network Theory which brings recognition that firm's internationalization is a product of network relationships with a regression coefficient of -0.217 and p-value of 0.001. In conclusion, all the coefficients have p-values less than the critical value of $\alpha = 5\%$, hence all are statistically significant predictors. The relatively small t-values could be due to multicollinearity.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study intended at finding the effect of internationalization on the export performance of SMEs in Gikomba market. The study's chief objective was to ascertain the association between internationalization and export performance amongst SMEs operating in Gikomba market. This chapter brings forward a summary of the research findings, discussion, conclusion and the study's recommendations.

5.2 Summary of the Findings

The outcome of the research establishes a relationship between internationalization and export performance with the regression analysis yielding an R^2 (Coefficient of Multiple Determination) of 0.871 implicating that at least 87.1% of the variation in performance of Export can be accredited to the internationalization strategies that are implemented by the SMEs in Gikomba market. The p value of 0.001 point outs that the influence of internationalization practices on the performance of Export is significant at 95% level of confidence amongst the SMEs in Gikomba market.

The findings of the study reveal that; apart from reliance on the Network Theory which identifies that companies' internationalization as a product of network relationships; all the internationalization strategies result to a positive effect on the performance of exports of the SMEs in Gikomba market. According to the findings, the most influential internationalization strategy is the focus a firm entering into new foreign markets that are similar to those at its home base and taking advantage of its competencies that are developed at home followed by the SME's ability to arbitrage and coordinate across

international boundaries. The third most significant internationalization strategy adopted by SMEs in Gikomba market is Network relationships, unlike strategic decisions, play a very important role in a company's entry into foreign markets with a regression coefficient of 0.649 and a p value of 0.002. The last internationalization strategy affecting export performance is Reliance on the Network Theory which points out to the fact that a companies' internationalization is a product of network relationships.

5.3 Conclusion

The study's outcome found an association between internationalization and export performance among SMEs in Gikomba market. The various internationalization strategies adopted by the SMEs have had a significant sway on the export performance of the respective SMES. The study concludes that most of the SMEs in Gikomba market have adopted and implemented internationalization strategies to a large extent. The study further concludes that the knack to arbitrage and coordinate across international borders; concentration on expanding into markets similar to those of home base, using competencies developed at home; Network relationships, as opposed to strategic decisions, play an essential part in a firm's international market entry; and reliance on Network Theory which brings recognition that firm's Internationalization is a product of network relationships are the main internationalization strategies adopted by SMEs in Gikomba market. The study concludes that the most influential internationalization strategy is the focus on expanding into markets similar to those of home base, using competencies developed at home followed by the SME's ability to coordinate and arbitrage across national borders.

5.4 Recommendations

The study established a significant association between internationalization and export performance thus drawing attention to the need for more SMEs in Kenya to adopt internationalization approaches to enhance their core competencies. This study also recommends that Kenyan companies should put in place mechanisms to facilitate international trade through integration and collaboration given the fact that network relationship has a very critical role in the process of internationalization.

Given the significant influence of the concentration on the expansion into markets that resemble those located in their home base , by utilizing home developed competencies. coupled with the SMEs' capability to arbitrage and coordinate across foreign borders on export performance, the study underpins the need for SMEs to invest in current and emerging technologies to enhance their operations efficiency particularly with regards to establishing current marketing and customer service management models. In the same vein, the study underscores the need for firm in Kenya to facilitate the adoption of value creation practices that take centre stage in customer service management and planning among Kenyan firms not only among SMEs but across other sectors as well to enhance firm performance in international markets.

5.5 Limitations of the Study

This study wanted to ascertain the level of association between internationalization and export performance. Such a study as this should encompass a survey of numerous firms in order to deliver the most accurate results. However due to resource and time impediments only 63 SMEs located in Gikomba market were considered.

The time allocated for this study was very limited considering a study of this nature. The researcher had to balance between the field especially in data collection and work. This acted as a big impediment especially in making sure that the research work did not negatively affect the productivity and performance of the researcher at his place of employment. Some of the questionnaire respondents were evasive which posed a major impediment during data collection in the field work. This made the research's work more burdensome since he had to edit some of the data after conducting the field work. In spite of these many challenges during the study the research was conducted in the best way possible and was not compromised in any way.

5.6 Suggestions for Further Research

There exists a need to conduct studies that will carry out factor analysis so as to further examine the model to confirm the study findings. Further studies can be carried to confirm and test the factor load in a variety of companies to further strengthen the strength and validity of the model. There also exists a need to conduct extra research to concentrate the factors that are vital for success in implementation of internationalization practices.

The fact that the extent to which various internationalization practices effect the performance of exports differs from one SME to another necessitates the need for further research so as to point out optimal internationalization practices and on the likelihood of establishing local benchmarks. There also exists a need for additional research in respect of international business management is further complicated by the fact that exports performance optimization amongst SMEs is quite a new occurrence in Kenya.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
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P.O. Box 30197
Nairobi, Kenya

DATE 07/06/2016

TO WHOM IT MAY CONCERN

The bearer of this letter KENNETH ACHESA MALECHE

Registration No. D61/72505/2014


is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.




PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

APPENDIX II: QUESTIONNAIRE

INSTRUCTIONS

Please provide the answers as correctly and honestly as possible.

SECTION A: DEMOGRAPHIC INFORMATION

1) Gender

Male [] Female []

2) What is your highest academic qualification achieved?

Secondary []

Diploma []

Degree []

Masters []

Masters []

Others (please specify.....)

3) For how long have you operated in this market?

1 – 5 years []

6 – 10 years []

11 – 15 years []

16 – 20 years []

21 years and above []

4) In which industry does your SME belong?

Manufacturing []

Hospitality/ tourism []

Agriculture []

Fisheries []

IT / technology []

Juakali []

SECTION B: INTERNATIONALIZATION PROCESS

5) Has your enterprise been engaged in international /global trade?

Yes [] No []

6) If your answer in 5 above is yes, what has been your main internationalization strategy? Please explain

7) In what is your firm's general experience with internationalization? Please explain

8) What was the rationale for going international:

Long term agreement relating to marketing []

Export management or trading companies []

Technology alliances relating to product research & development []

Purchaser – supplier relationships []

Production []

Outside contracting []

Distribution / logistics' []

Others (Specify)

9) When internationalizing, firms identify their specific competitive advantages and then look for those location-specific advantages of a market that provide the best production or sales condition. To what extent have the following specific competitive advantages enhanced your firm's internationalization process?

Please indicate on a Scale of 1 – 5 where: 1 = No Extent; 2 = Small extent;
 3 = Some Extent; 4 = Large Extent; 5 = Very Large Extent

No	SPECIFIC COMPETITIVE ADVANTAGE	(1)	(2)	(3)	(4)	(5)
	A. Location – specific Advantage					
i.	Attractiveness of the foreign market.					
ii.	The fit between the chosen market and the firm’s strategy.					
iii.	Relocating production to particular offshore locations to take advantage of favorable government incentives or regulations in different locations.					
	B. Internalizing –specific advantage					
iv.	Benefits of retaining tangible and intangible assets within the firm					
v.	Reduction in transaction costs					
	C. Ownership – specific advantage					
vi.	Tangible and intangible assets					
vii.	Compensates for liability of foreignness					
viii.	Continual reinvestment					

- 10) In your own opinion to what extent has your firm adopted the following internationalization processes in order to build its global leadership?

Please indicate on a Scale of 1 – 5 where: 1 = No Extent; 2 = Small extent; 3 = Some Extent; 4 = Large Extent; 5 = Very Large Extent

No	ISSUE	(1)	(2)	(3)	(4)	(5)
	A. Selection					
i.	Appropriately select assignees					
ii.	Selection from a small pool of known candidates who are either available or unique to achieve a specific goal					
iii.	Differences between the number of male and female expatriates or the different number of home country and third country nationals					
	B. Training					
iv.	Availability of Training and development initiatives					
v.	Establishment of different models of training have been developed, contemplating different factors such as the nature of the international operation, the job and culture toughness, language skills etc					
	C. Cross - cultural Adjustment					
vi.	Cross-cultural training essential to effective host adjustment and effective assignments.					
vii.	Adjustment to the new job.					
viii.	Adjustment to interacting with host country nationals.					

ix.	Adjustment to the general nonworking environment.					
	D. Appraising and Rewarding	(1)	(2)	(3)	(4)	(5)
x.	Rigorous and formal performance appraisal systems for expatriates.					
xi.	Willingness and ability to make the "whole standard of living" of expatriate similar in the host as it was in the home country to keep expatriate's purchasing power in the host country similar to what he or she had in the home country.					
xii.	Incentives and allowances are additionally created so as to attract and retain the talented people needed to foreign assignments.					
	E. Knowledge Transfer					
xiii.	Selection of expatriates based on their technical competencies.					
xiv.	Personality characteristics or adaptability to other cultures.					
xv.	Internal recruitment of expatriates, by their direct manager, without much support from HR professionals.					

SECTION C: INTERNATIONALIZATION STRATEGIES FOR SMEs

11) In your own opinion to what extent has your firm adopted the following internationalization strategies in order to enhance its global competitiveness?

Please indicate on a Scale of 1 – 5 where: 1 = No Extent; 2 = Small extent; 3 = Some Extent; 4 = Large Extent; 5 = Very Large Extent

No	Strategy	(1)	(2)	(3)	(4)	(5)
i.	Focus on expanding into markets similar to those of home base, using competencies developed at home.					
ii.	Focus on upgrading capabilities and resources to match international market demands.					
iii.	Tendency to shift to “Born Global status” or “instant internationals”					
iv.	Ability to coordinate and arbitrage across national borders.					
v.	Alliance network relationships and access to other firms’ resources.					
vi.	Production and offer of innovative and cutting-edge products.					
vii.	The use of a range of market entry modes in multiple markets.					
viii.	Focus on leveraging local assets in markets segments where, multinationals are weak.					
ix.	Owner and/or manager characteristics including: global mindset, pro-activeness, innovativeness and risk taking.					
x.	Prioritizing on external relations over internal					

	conditions and assets.					
xi.	The utilization of a firm's position in a network taking a specific strategic value, hence becoming a specific intangible Resource.					
xii.	Network relationships, as opposed to strategic decisions, play an essential part in a firm's international market entry.					
xiii.	The firm's entry mode decisions and choice of markets are influenced by their network partners.					
xiv.	The reliance on Network Theory which brings a recognition that firm's internationalization is a product of network relationships that are both formal and informal.					
xv.	The firm's network has great value and a source of market information and knowledge that would take a firm a long time to acquire at great cost.					

SECTION D: EXPORT PERFORMANCE

- 12) Over the past three years, how have you been with overall performance of your firm along the following dimensions?

Please indicate on a Scale of 1 – 3 where: 1 = Very Dissatisfied; 2 = Neutral; 3 = Very Satisfied

	Very Dissatisfied	Natural	Very Satisfied
Export Sales Volume	[1]	[2]	[3]
Export sales Growth rate	[1]	[2]	[3]
Export Profitability	[1]	[2]	[3]
New Export Market entry	[1]	[2]	[3]

- 13) Over the past three years, how have you been with overall performance of your firm along the following dimensions?

Please indicate on a Scale of 1 – 3 where: 1 = Below Expectation; 2 = Meet Expectation; 3 = Exceed Expectation

Growth in export profitability	[1]	[2]	[3]
Growth from new products and services	[1]	[2]	[3]
Revenue from new products and services	[1]	[2]	[3]
Export market share	[1]	[2]	[3]

14) Over the last three years, what has been the average annual percentage change in your export?

Sales..... % **OR** % Decline

15) Over the last three years, what has been the average annual percentage change in your export?

Sales..... % **OR** % Decline