

**THE ROLE OF INTERNATIONAL NETWORK MANAGEMENT AS  
A SOURCE OF COMPETITIVENESS AMONG SMES WITHIN THE  
NAIROBI CENTRAL BUSINESS DISTRICT**

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## DECLARATION

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

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D61/68404/2013

This research project has been submitted for examination with my approval as the university supervisor.

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## **DEDICATION**

I dedicate this project to my family for their unfailing encouragement and love. To my beloved parents who have made me the person I am today.

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## **ABSTRACT**

As companies expand their operations beyond the boundaries of the country, it becomes challenging to enter into a foreign market and there is therefore need to adopt appropriate strategies to successfully venture to the international market. International network management is an important strategy that can be employed by a firm and involves network planning processes which takes into consideration a combination of the business operations, marketing and a dynamic master plan for all the activities of the organization. International network management facilitates organizational learning which enables a firm to penetrate a new market with fewer resources. As a result, this research sought to establish the role of international network management as a source of competitiveness among the SMEs within the Nairobi CBD. The researcher adopted a descriptive research design and used primary data. The primary data was collected by way of self-administered feedback forms. The researcher then analyzed the data collected using mean and standard deviations while presentation was done using tables and percentages. The research findings were that local SMEs enter into partnerships with foreign partners in order to increase the firm's capacity to compete at the international market and also to be able to enhance the firm's productive capacities and access external relations with new knowledge. Among the operational areas that were found to be positively affected by the networking process include enhancement of employees' tacit knowledge and organizational knowledge capacity as well as management of organizational costs that the SMEs incur in their trade. The study also found that international network management enables SMEs to access complementary resources which a single firm or region does not possess and consequently enhances the productivity of the firms. The study concluded that SMEs need to consider expanding their market shares and geographical coverage as a way of diversifying their risk and extending their business lines internationally.

## **ABBREVIATION AND ACRONYMS**

CBD	-	Central Business District
GDP	-	Gross Domestic Product
NCC	-	Nairobi City County
SME	-	Small and Medium Enterprises

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

The world is currently experiencing rapid changes in the international market due to the challenges and uncertainty for businesses that are engaged in international trade that come about as a result of increased modes of internationalization (Bhatti 2011). As one way of minimizing the challenges faced especially by SMEs, establishment of international business networks has become important for organizations to achieve competitiveness. Network management represents the idea of increasing organization performance using the appropriate resources. McGahan and Porter (2002) earlier noted that the competitiveness of a business is actually affected by the external business environment and the internal strategic choices made within the organization. Network management is of importance to organizations engaged in both local and international business because it involves network planning process which takes into consideration a combination of the business operations, marketing and a dynamic master plan for all the activities of organizations (Al-Laham & Souitaris, 2014). International network management, facilitates organizational learning which act as the locus of innovation and the firm being able to penetrate a new market with less resources

The SMEs are now recognized as an important ingredient to the world economy playing a pivotal role in regional economic sustainability and growth. As they increase their globalization quest, the SMEs will need to collaborate to reduce the uncertainties that come about in their international businesses. Given the increasing competitiveness of the

global market, the advantages of regional networks lie in the ability of SMEs being flexible and their rapid response to the shifting market conditions through highly personalized and differentiated products within a collective entrepreneurship context. This is no exception to the SMEs within the Nairobi CBD. The SMEs operating within the CBD are diverse in nature ranging from and include those that deal in food and beverages, electronics and home appliances, beauty products, clothing products as well as consultancy work.

### **1.1.1 Concept of International Business**

International business consists of any commercial transaction that crosses the borders of any two nations (Bennett, 2009). Apart from international trade of goods and services, international business also includes foreign investment. One of the main factors why international business has gained wide popularity can be attributed to the growing rate of multinational enterprises. The flow of products and services, resources, technologies, ideas, and people among markets has had a major effect on nations and their governments as well as business enterprises and individuals (McDonald *et al.*, 2012). International business increases competition for business enterprises in domestic markets. It also opens up new opportunities internationally. On the other hand, consumers benefit from international business as it introduces an increased variety of goods and services into the global marketplace as well as enhancing the standards of living. Equally important, the opening up of borders results in increased exposure to novel technologies, ideas and way of doing things (Devinney, 2010).

International trade policy is made up of bilateral and multilateral agreements which dictate the terms of commerce between nations and governments. Whilst these trade policies and relations may differ in scope and content, they all depend generally on the structure of the economy of a particular country (Hill, 2005). On the international scene, the globalization process plays a vital role in shaping and influencing trade policies. At a domestic level, policy making is closely linked with the nature of public-private relationships and the independence of state agencies and their institutional capacity and strength. Since no nation is self-sufficient, international trade is crucial as it enables a nation source goods and services which it may lack or may have but in inadequate quantities as well as serve as a subject of international politics for promoting, achieving and maintaining peace between international trade associations or nations (Torre, 2008).

### **1.1.2 International Network Management**

International network management is an inter-organizational relationship on the basis of a contract or agreement in which common resource adoption, organizational management and common goals are achieved (Parkhe, 2011). One of the various options which a company can use to achieve its goals, which is based on co-operation between companies, is network management (Mockler, 2009). Network management is a form of strategy used by SMEs to increase its formidability in the world market and for purposes of increasing its market share. There is need to call for more attention on network management by emerging economies for purposes of boosting competitiveness in the global market. In a global world, nations compete to sustain and increase their standard of living (Garelli, 2003).

The business' decision to compete through the formation of network management as opposed to pursuing other means such as merging, acquisition or internal development constitutes a strategic choice. The goal of this choice is seeking competitive advantages through cooperation with other business enterprises which includes competitors (Varadarajan & Jayachandran, 2009). Therefore, international network management is becoming an important characteristic for sustaining advantage in today's competitive marketplace.

### **1.1.3 Small and Medium Enterprises in Nairobi**

SMEs are defined as a small enterprise with employees ranging between five (5) to about fifty (50) (Kimuyu & Omiti 2000). The enterprises will, in most cases, be managed by the owner or controlled directly by the owner and are commonly family owned. In addition, most SMEs operate from business or industrial premises, are registered for tax and are likely to meet all other statutory registration requirements. However, they observed that classification of SMEs on the basis of assets and turnover is difficult due to the extensive differences in various business sectors such as manufacturing, retailing and professional services. Medium enterprises make up a class of enterprises which is difficult to distinguish *vis-à-vis* the small and big business categories. Medium enterprises are still viewed as basically manager/owner controlled even though the shareholding structure (if a company) could be more intricate. Medium enterprises are characterized by the employment of over 200 employees and capital assets of approximately Kenya Shillings two million exclusive of property (Kimuyu & Omiti, 2000).

The Kenyan SME sector is a mix of dynamic enterprises and self-employment outfits which are involved in a wide array of activities and which are mainly concentrated in urban areas but are also found in rural Kenya, albeit minimally. There are approximately 1,300,000 SMEs currently employing 2,300,000 individuals and generating as much as 24% of the country's GDP (Mullei & Bokea, 2009). Unskilled rural migrants acquire skills in the SME sector which are necessary for their survival in the demanding urban environment. The SME sector also attracts skilled employees who have been retrenched from formal sector jobs. In most cases, the SME sector is regarded as the next-best alternative for a person unable to find or maintain a job in the formal sector. The size of an SME's total work force varies broadly across establishments and the type of activity.

However, the two main components of the work force are apprentices and entrepreneurs. Informal outfits attract appreciably more apprentices than the formal sector. Over the last few years, employment growth in Kenya's SME sector has far outpaced growth in the larger formal sector (Aboagye, 2006). Nonetheless, SMEs still require employees with technical skills that would often be lacking from school leavers. Therefore, it is highly unlikely that the SME sector will solve Kenya's overwhelming unemployment issue on its own (Ongile & McCormick, 2006).

## **1.2 Research Problem**

The globalization of regional economies and a more demanding market is pushing organizations, mainly the SMEs to re-structure their business strategies in order to align them to the current market demand. With this thinking, different organizations, especially

those engaged in international trade are considering gaining competitiveness through collaboration with knowledge management as a strategy that allows them to improve their level of competition because knowledge is considered as an essential element to obtain a higher level of competitiveness and performance. By bringing together the strengths and resources of each sector and through the pursuit of common objectives, international network management enables partners to take advantage of each other's differences for the benefit of all parties. Individuals, businesses and nations acknowledge the scale of challenges globally and an obvious need for new approaches including a more active role in business (Mayer 2012). Thus, although business is still, to a large extent, blamed for its role in aggravating environmental and social problems, business is increasingly seen by multilateral institutions, elements of civil society and governments as part of the solution (Austin 2009).

The SME sector within the Nairobi CBD is very visible and is the largest provider of essential goods and services to the general public. The sector is an important component in the country and is often used as a benchmark in terms of the country's development and the general growth of the national economy. By being a major employer, the sector has thus contributed in constructive and positive ways to the people and economy of Kenya. However, international competition confronts the majority of SMEs that are purely domestic and whose products and sales are enormously localized or segmented. Consequently, SMEs have to improve their business skills in order to manage more efficiently the knowledge generated by their employees and to adapt faster to the external and internal changes that will allow them to apply innovative activities and as a

consequence, improve their performance. Johanson and Mattsson (2010) suggest that an enterprise's success in making a footing in the international market is dependent more on the relationships it has forged within current markets, both domestic and international, as opposed to the chosen market and its cultural characteristics. Coviello and Munro (2006) suggest that the basis of founding entrepreneurial high-technology firms was to develop multiple relationships for internationalization and to use these firms in parallel across numerous markets. Mohammed and Bilkis (2010) undertook a research on inter-firm value creation: conceptualizing for the success and sustainability of strategic partnerships. Their findings were that creation of inter-firm value required proper implementation of value creating methods for example sharing of information, electronic joint programs, joint cost management and collaboration.

Locally, Nyagaka (2014) researched on the role of international trade in achieving food security in sub saharan Africa. He found out that the capacity to import food has plummeted, occasioning the country into more food insecure issues. The balance of trade between Kenya and the rest of the world has deteriorated against Kenya. Ogutu (2010) carried out a research on the business value of strategic information systems of SMEs within Westlands in Nairobi. He concluded that the most exceptional benefit that SMEs would enjoy from investing in strategic information systems include, but is not limited to, improved flow of information and communication within the firm, reliability, improved accuracy, customer satisfaction and loyalty.

The above studies have not tackled international network management and its role as a source of competitiveness among the SMEs. It is on this assertion that a study will be undertaken to ascertain the role of international network management among the SMEs within the Nairobi CBD. This study will therefore be guided by the question; what is the role of international network management as a source of competitiveness among the SMEs within the Nairobi CBD?

### **1.3 Research Objective**

To establish the role of international network management as a source of competitiveness among SMEs within the Nairobi CBD.

### **1.4 Value of the Study**

The understanding of the role of international network will assist policy makers to design precise policies and programs that will aggressively stimulate the growth and sustainability of such businesses, as well as promote, encourage and support the establishment of suitable policies that will reduce bottlenecks in the operations of SMEs and also hasten the rate of growth in the sector.

The study findings will also be of benefit to the management of SMEs as they will get insight into how their organizations can get better services from their trading partners. This study will provide an understanding on the importance of adopting an efficient regional network for both the SME and its partners and thus provide the SME with a competitive advantage as compared to other organizations.

This study will further create a treatise which could be replicated in other sectors of the economy. Of great importance, this research will contribute to the available literature on the international trade particularly in developing countries like Kenya. It is anticipated that the findings will be of value to academicians, who may find helpful gaps in research that may spur interest in future further research. Recommendations will be made subsequently on possible areas of future studies.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

In this chapter, literature of relevance to the study will be reviewed. Key areas of literature that took center stage in this section include the theoretical framework. The study discusses international network management, antecedents of international network management and the relationship between international network management and competitiveness.

### **2.2 Theoretical Foundation of the Study**

A theory is defined as a group of statements which are supported by evidence meant to explain some phenomena. The theoretical standpoints act as the filter and as a guide for focusing the data to be collected. This study was guided by transaction cost theory and resource dependency theory.

#### **2.2.1 Transaction cost theory**

McIvor, (2005) stated that transaction cost is the motive behind varied forms of organizing economic activity. The two ends of a gamut on how to administrate business are hierarchies and markets. Different governing structures in business relationships result in different transactions and transaction costs. These transaction costs can be categorized into four broad classes: search costs, contracting costs, monitoring costs and enforcement costs. On the other hand, Faems (2008) argues that transaction cost theory makes a firm vulnerable opportunistic behaviour of its partner notwithstanding the fact

that it is difficult to evaluate the partner's performance. The element of trust would serve to shrink some of the uncertainties and risks which are associated with these economic exchanges. Those who propose the relational theoretical perspective assert that trust may be used as an alternative governance system for two persuasive reasons. In the first instance, trust assures business associates that the transacting party will not act opportunistically even in the existence of such opportunities. This negates the need to draft complex agreements that are otherwise time consuming and costly. Secondly, trust set off extensive sharing of information between transacting partners.

Transaction costs represent a friction in the market or cost of using the price mechanism. According to Aubert (2004), the basic rule stipulates that when the transaction costs are higher than the management costs, the transaction should be internally organized. Transaction difficulties are the reasons behind transaction costs. These include uncertainty and complexity, bounded rationality, small numbers, opportunism, asset specificity and information effectiveness. Based on the transaction cost theory, organizations may better focus on their most value-creating activities when they have integrated their operational functions strategically with specialist organizations thereby maximizing the potential effectiveness of those activities. In addition, costs may decline, and investment in equipment, manpower and facilities can be reduced as network management increases. Dutta and Weiss (2007) noted that complex networks tended to be administered through other hierarchical forms like equity-based which aims at creating mutual interests thus reducing the likelihood of opportunistic behavior. Therefore,

network management assumes that activities are spread out amongst the various parties within the network.

### **2.2.2 Resource Dependence Theory**

The resource dependence theory stipulates that as a firm is not in a position to internally generate all the resources required to sustain itself, it must develop external relationships with elements from the outside environment to acquire the necessary resources. The firm must therefore put in place systems internally that satisfy the demands of both internal resource providers as well as the external resource providers. Accordingly, organizations obtain power from resources and this transforms relationships by prioritizing the interests of shareholders, revising compensation practices to improve performance and share price and working towards increasing their value (Pfeffer & Salancik, 1978). The theory is concerned with the form of company structure within a specific set of circumstances in an attempt to stabilize transactions and allow for efficient access to external resources thus stabilizing outcomes and averting environmental control.

Resource dependence theory was developed as an alternative perspective to economic theories of mergers and board interlocks and also for purposes of appreciating the type of inter-organizational relations that have played an enormous role in recent market failures Pfeffer, (2003). The organization motivation ensures the organization's survival and enhances its autonomy, as well as maintaining stability in the organization's exchange relations. Resource dependence theory is generally concerned more with the external organizations that finance, distribute, provide, and compete with an organization. The

theory maintains that organizations do not have sufficient resources and therefore struggle to obtain and sustain resources from their external environment. These resources are in the hands of external parties who exert demands and apply pressure on the organization. Daily, Dalton and Canella, (2003) discovered that accessibility to resources enhances organizational functioning, performance and survival.

### **2.3 Antecedents of International Network Management**

These can be said to be the ingredients which cultivate the formation of co-operation among SMEs. Markets are more and more becoming international networks of associations and particularly of alliances. It is widely believed that becoming a part of an international alliance network has a great influence on the speed of international development and thus contributes to an organization's success.

#### **2.3.1 Mutual Trust and Interdependency**

Mutual trust between the partners is crucial for any relationship (Tomkins, 2001). Trust is an intrinsic behavioral aspect of both parties in the relationship and arises over time in the interaction of both parties (Su *et al.*, 2008). Mutual trust elicits a certainty that one party will not act to the detriment of the other party. Trust is therefore a vital antecedent in the formation of a partnership to create network management. Tangible or intangible trust must be achieved in terms of character, motives, the role of competence and judgment in order to become trustworthy to each other. This does not extinguish the possibility of opportunistic behavior by the other party and all ambiguity can never be fully removed in a partnership. Hutt *et al.*, (2007) have recognized that when business associations

develop more collaboratively, personal relations grow. Informal contracts become the order of the day as opposed to formal contracts thus resulting in fast adjustment to the needs of the business. Trust between parties can be either cognitive, calculative or normative. Cognitive trust is based on a common way of thinking and the conviction that through this common way of thinking, a party can predict the behavior of the other party. Calculative trust is based on the belief that breaking a promise is more offending than what can be achieved through keeping the promise. Normative trust is based on shared values and common sense of morality. Where trust is earned trust, parties would focus more on network management creation and less on control.

### **2.3.2 Effective Communication and Cooperation**

Effective communication strategy in a supply chain can be used as a means to influence the negotiation process during a bargaining session. Effective communication of common goals and resolution of misunderstanding is achieved through effective communication (Su *et al.*, 2008). A consumer can ensure an increased flow of communication and information in order to reduce a drop in investment. Effective communication is essential for assimilating functional units that bind organizations, performance measures, joint programs and increasing absorptive capacity as well. Functional assimilation is required for purposes of applying complex technology to accomplish organizational objectives (Tuet *al.*, 2006). Sharing of information requires effective communication that increases the chances of the discovery of new ways of enhancing relational performance amongst partners. Planning information, operational information, customer requirement

information and financial information form part of the most important forms of information that partners should share.

Cooperation is defined as collaboration with others with the intention of producing common benefits or the attainment of rewards or, more generally, all activities carried out mutually, including attitudes and the potentiality of future behavior, as well as behavioral fundamentals (Su *et al.*, 2008). Parties show their willingness to extend dealings beyond the transactional exchange and towards building, developing and nurturing relationships through cooperation. It is a crucial precursor for any long-term relationship. The level of cooperation in a relationship amongst SMEs is a performance measure of the success of the relationship.

Firms should develop strong relationships built on trust and cooperation with suppliers, which facilitate information sharing and the performance of common activities in order to achieve competitiveness in the global economy. The high dependency on external resources and lack of certainty in supply and demand justify the appropriateness of the formation of a close long-term relationship (Su *et al.*, 2008). A system made up of mutual cooperation produces richer structures and stable social and technological networks.

### **2.3.3 Environmental Pressure**

There are three main areas that bring about environmental pressures. These are: time and quality based competition, uncertainty and global competition (Mentzer *et al.*, 2010). Behavioral uncertainty springs forth from the intricacy of predicting the actions of the

counterparty in the relationship whilst opportunistic behavior precludes the writing of a completely contingent contract (Zaheer & Venkatraman, 2011). By recognizing resource dependency, firms engage in joint and collaborative endeavours to reduce technological change and uncertainty by encouraging collective strategies, (Kim *et al.*, 2010). The business environment is constantly changing particularly with regards to customer organizations and service providers. In addition, there are numerous small and large scale uncertainties in any business relationship. Some of them are identifiable and provide opportunities for the parties to prepare for these. However, there are some uncertainties which are unknown and might cause harm to the relationship when they suddenly crop up. Some of the incentives for establishing and nurturing relationships amongst SMEs include improving competence, the increase in return on assets or reductions in unit costs, waste, downtime, or cost per unit or client. Therefore, SMEs get the opportunity to reduce environmental pressure through fostering relationships with other partners by way of resource sharing, cost sharing and information sharing (Erakovich and Wyman, 2009).

#### **2.4 International Network Management and Competitiveness**

Carlucci et al, (2004), stated that an effective organization's network management will help in capturing the market's high potential employees by understanding their motivations, building a winning environment that people will long to belong to and establishing a link between organizations. Similarly, the effectiveness of network management enables SMEs to constantly accumulate and dispose of resources thereby meeting the demands of a changing market (Zott, 2013). The capabilities of network management are unique to organizations and these reflect their specific path-

dependencies, their individual idiosyncrasies and therefore are considered to be the source of sustainable competitive advantage and long-term exemplary performance (Teece et al, 2007). Network management creates economic and social value to the SMEs. It increases the ability of SMEs to pursue missions more effectively.

Increased accountability for organizations and heightened social legitimacy for corporations, corporate accountability indicated and equal importance of process and outcomes while taking note of the role of multiple stakeholders for example shareholders and employees (Seitanidi and Crane, 2009). Involvement of network management as a source of competitiveness varies from the potential of network management to co-produce resources which are intangible and novel methods of production brought about as a result of organizations' adoption of advanced technology.

#### **2.4.1 Sharing of Information**

The cooperation and sharing of information between partners can assist firms in achieving the benefits of network management. The role that information sharing plays in network management has been explored in literature on operations management and this includes new product and process development as well as customer satisfaction. Effective communication among the partners is crucial to the sharing of information. (Primo & Amundson 2002). Knowledge acquired through the sharing of information is important for the associates in external relationships as it enables the partners to identify new opportunities and acquire new skills. According to Cooper and Slagmulde (2004) sharing of information enables organizations get collaborative benefits. The two asserted that the

role of guest engineers in the joint product development process, is extremely crucial and facilitated the sharing of information as an example of an inter-organizational cost management practice. Reliable sharing of information in an SME relationship reinforces the relationship with a long-term course and new opportunities (Ryu *et al.*, 2007).

Cost related information as well as production related information should be included in the information shared between SMEs (Tomkins, 2001). Information sharing enables consumers and suppliers identify effective ways of coordination and lowering relevant costs thus ensuring competitive advantage. In businesses, organizations are valuable in the provision of guidance and an external view on the environmental and social issues which are new to the private sector. Consequently, significant new scientific expertise as well as useful local networks is generated through collaboration, (Alsop, 2004). SMEs also employ network management strategy as it helps in the avoidance of conflict with other external factions. It is observed that collaboration of SMEs increases the credibility of the SME through the provision of a credible stamp of approval to the SME. Improved legitimacy and trust for the social and environmental initiatives of an SME and safeguarding of business longevity can be achieved through collaborating with other corporations. In the pursuit of growth opportunities including internationalization, SMEs accumulate networks management support. The resources, knowledge and information useful in exploring foreign markets are commonly drawn from the external formal contacts as well as the external informal contacts that entrepreneurs forge. There is a direct linkage to the competitive advantage of each firm and the advantages of the firm's

relationship networks and consequently these relationship networks may prove priceless for both the consumer and the organization (Mesquita, 2008).

#### **2.4.2 Joint Cost Management**

Great improvements in decision-making and analysis, improvement in an organization's competitive advantage, better allocation of resources and setting of priorities are all supported by strategic cost management (Ellram & Stanley, 2008). Internal cost management is considered as one of the strategic cost management techniques. The open book method of costing cannot be implemented in the absence of cooperation. Conversely, implementation of the open book method of costing leads to cooperation among business partners. Additionally, the sharing of information and joint cost management as part of network management to a large extent depends on the capabilities of the partnering organizations (Barringer & Harrison, 2000). Joint performance measures results in relational governance in inter-organizational relationships. One of the key essentials in long-term customer supplier relationships is a compatible corporate culture (Mentzer *et al.*, 2000). Consequently, the compatibility of organizations is positively linked to network management and a strategic partnering orientation.

Participating firms in a strategic relationship pursue strategic targets through continuing long-term joint programs where skills and proficiency are most crucial. Participation in networks drives internationalization as it contributes to the acquisition of financial and political assistance, contributes to lower entry, investments costs and organizational costs, (since it reduces the time needed for integration of international operations) and

helps mitigate and diversify risk (Hakansson & Lind, 2007). As a result, the firm's ability to overcome foreign market barriers and assist in the entry into the foreign markets is hugely dependent on network management (Agndal & Nilsson, 2009).

### **2.4.3 Flexibility and adaptability**

There is a need for constant adaptation of services to the various changes in customers' business environment. As a result of new resourcing and synergy possibilities, emergent customer relationships and shifting physical and business environments, it is now possible to carry out work more efficiently (Ryan and Bernard, 2003). Considering this from a collaborative outlook, in order to enable service providers' use their resources most efficiently and plan their services in a cost efficient manner, it is of vital importance that customers form part of the working circle. Customer needs are constantly changing and it continuous communication with the customer is therefore necessary to facilitate quick response to the changes and re-organization of resources. It is pointless to invest resources such as money and time in business relationships if the investor does not expect any beneficial outcome in the future.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

The proposed research design, target population, sampling design, data collection instruments and procedures and the techniques for data analysis are described in this chapter.

### **3.2 Research Design**

A cross-sectional descriptive research design was adopted as the research design. The research design was considered appropriate on the basis that the main interest was to explore a relationship that was viable and provide a description as to how the matters under investigation were supported by the factors. The study created a profile of the SMEs through a system of data collection and tabulation of the frequencies on research variables and how they interact. Further insight into the research problem was provided by the research design by describing the variables of interest.

### **3.3 Population**

A population can be defined as a 'well defined or set of people, services, elements, events, group of things or households that are being investigated' (Bogdan and Biklen, 2009). The population of the study was all the SMEs operating within the Nairobi CBD. According to the NCC licensing data (2016), there are 926 registered SMEs operating within the Nairobi CBD.

### **3.4 Sampling**

The researcher used cluster sampling technique in the study. The technique accorded all the members of the population equal chance of selection for the study. The researcher picked 15 SMEs located in seven busy streets within the CBD from the list provided by the NCC licensing department. This enabled the researcher to arrive at 105 SMEs to be the sample size.

### **3.5 Data Collection**

The study used primary data which was collected through self-administered questionnaires. Because of the necessity to provide a means of respondents expressing views more openly and clearly, questionnaires are considered useful tools for data collection. The questionnaire was structured in such a way that it consisted of both open ended questions as well as closed ended questions which were specifically designed to extract precise responses for qualitative analysis. The researcher dropped the questionnaire at the chosen SMEs and collected these later which gave the respondents sufficient time to respond adequately. An introductory letter explaining the purpose of the study was included as proof that the study is being done for academic purposes only. The respondents were managers and employees of the SMEs or whoever was responsible for running the SME.

### **3.6 Data Analysis**

The researcher used descriptive statistics (measures of central tendency and measures of variations) to analyze the data collected. Descriptive statistics involves transforming raw

data into tables, charts, frequency distribution and percentages. This is a vital part of breaking down the data into simplified information that would make sense to the researcher. The data was classified, tabulated and summarized using descriptive measures, percentages and frequency distribution tables while tables were used for the presentation of the findings. The researcher utilized the Statistical Package for Social Sciences (SPSS) software in analyzing all details efficiently and effectively.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter sets forth the data sought, the analysis carried out and ultimately, the end-results. The data was analyzed on the basis of specific objectives sought to be achieved and the particular variables which were selected by the researcher for the study. The basis of the analysis was the study objective which was to establish the role of international network management as a source of competitiveness among SMEs within the Nairobi CBD.

### **4.2 Response Rate**

A total of 105 questionnaires were distributed to 15 SMEs located in seven busy streets within the CBD out of which only 87 were completed and returned. The questionnaires which were completed and returned were checked in order to ascertain consistency and completeness. The 87 returned questionnaires represented an 83% response rate. This rate was considered satisfactory for purposes of analyzing the data and conformed to the stipulation by Mugenda and Mugenda (2003) that a 70% or higher response rate is adequate. In addition, as the researcher had a limited period within which to follow up with the respondents, the chances of more completed questionnaires being received was low and therefore, the 87 already received was considered adequate for the research data analysis.

### 4.3 Demographic Characteristics of Respondents

The study considered level of education, length of continuous service, duration of SME operation in Kenya, number of employees and whether the SME had established or was operating within an international network as part of the characteristics on demographics.

Table 4.1 presents the outcome.

**Table 4.1 Demographic Characteristics**

Category	Item	Frequency	Percentage	Cumulative Frequency
Level of Education	Post graduate level	13	14.9	14.9
	University	44	50.6	65.5
	Tertiary College	19	21.8	87.3
	Secondary	11	12.7	100.0
Length of Continuous Service	Less than five years	14	16.1	16.1
	5-10 yrs	46	52.9	69.0
	Over 10 years	27	31.0	100.0
Duration of SME in Kenya	Under 5 years	8	9.2	9.2
	6 – 10 years	28	32.2	41.4
	11 – 15 years	33	37.9	79.3
	16 – 20 years	10	11.5	90.8
	Over 25 years	8	9.2	100.0
Number of Employees	Less than 10	53	60.9	60.9
	10 – 20	23	26.4	87.3
	20 - 30	11	12.7	100

SME established in International Network	yes	61	70.1	70.1
	No	26	29.9	100

The outcome on the level of education indicates that the respondents who had attained a minimum of a university degree represented 65.5% of the population whilst 12.7% of the respondents had gone up to the secondary level of education. In general, at least 65% of the respondents were in a position to understand the questionnaire and the research subject matter and consequently would be in a good position to answer the questions in the research instrument. It can be assumed that, *ceteris paribus*, a higher education level results in increased chances of the respondents understanding the questions and in this case, the respondents had the requisite knowledge on what international network management was and its role as a source of competitiveness among the SMEs within the Nairobi CBD. On the question of the period in which the respondents had worked for the SME, the findings were that a majority (52.9%) of them had worked with their respective SME for a period of between 5 - 10 years while 31.0% had been with the organization for over 10 years. This means that on average, over 83.9% of the respondents had been employed or otherwise engaged with the particular SME for a period of over 5 years. This can be considered enough time to understand the workings of the SME and, considering that most of the respondents had university education, the research questions would not therefore pose a great challenge for them to answer.

Further, the researcher sought to establish the length of time that each SME had been operating in Kenya and the results were that 37.9% of the SMEs had been operating for a period of 11 – 15 years while 32.2% of the SMEs had been operating for a period of 6 - 10 years. Only 9.2% of the SMEs had been in operation for more than 25 years. On the question on the number of employees each SME had, majority (60.9%) of the firms had less than 5 members of staff while only 39.1% of the firms had more than 20 employees. Finally, the researcher sought to find out whether the SMEs had established international business networks and the results were that 70.1% answered to the affirmative while 29.9% indicated that they had not established any such networks. It was evident that the SMEs adopted the international network strategy as a source of competitiveness and this could be attributed to the regional economic blocks that the country had entered into which acts as a ladder to the access of the wider market for the SMEs.

#### **4.4 International Networking Process**

This section of the questionnaire sought to find out the reasons behind the SMEs entering into international networking strategies. The range results were (1) representing ‘Not at all’ to (5) representing ‘Very great extent’. The disagreeing scores have been taken to signify a variable with a 0 to 2.5 mean score on the continuous Likert scale: ( $0 \leq S.D < 2.4$ ). The ‘Neutral’ scores have been taken to signify a variable with a 2.5 to 3.4 mean score on the continuous Likert scale: ( $2.5 \leq M.E. < 3.4$ ) and the score of both agree and strongly agree have been taken to signify a variable which had a 3.5 to 5.0 mean score on a continuous Likert scale: ( $3.5 \leq S.A. < 5.0$ ). A standard deviation of  $> 1.0$  implies a

significant difference on the impact of the variable among respondents. Table 4.2 tabulates the results.

**Table 4.2 Reasons for international networking**

<b>Statement</b>	<b>Mean</b>	<b>Std. Deviation</b>
To increase the firms capacity to compete at the international market	4.167	1.06
To enhance the firms productive capacities	3.963	.9104
External relations provide new external knowledge	3.963	1.045
Insufficient technological levels of regional firms	3.852	.899
To reduce uncertainties in the internal structures	3.796	1.088
Insufficient quality systems of regional firms	3.670	.9961
Difficulty at finding firms from your region	3.592	.942
Production and organization structures of regional firms do not apply to your SME	2.9074	1.0171
Absence of skilled employees in region	2.797	1.071

The findings are that the main reasons why the SMEs within the CBD enter into international business networking arrangements with foreign partners in order of priority is first because it increases the firms' respective capacity to compete at the international market (M = 4.167), second, as a strategy for enhancing the firms productive capacities and third, to access external relations with new knowledge (M = 3.963). The other reason identified was that SMEs entered into international business networking arrangements as a result of the low technological levels of other local firms (M = 3.852) and therefore the

local SMEs view the arrangements as an opportunity to venture into the international market. On the other hand, the study found that a lack of skilled employees in the local market to offer the required services was not considered a very strong reason for the firms to enter into international business networking arrangement ( $M = 2.796$ ). Based on the finding, it is evident that there are diverse reasons why different firms enter into the foreign market and it is upon a specific firm to identify its individual niche reason.

#### **4.5 Contribution of International Networks to SMEs**

The respondents were requested to indicate the contribution made by international business networking on the SME's operations in the international market. The results of this question are tabulated in Table 4.3.

**Table 4.3 Contribution of international networks to SMEs**

Statement	Mean	Std. Deviation
Increased development and knowledge capacity	4.750	.463
International networking has reduced the level of uncertainties and costs that the SME incurs in its trade	4.500	.756
Development of dynamic and creative synergy	4.375	.916
There has been increased flexibility towards changing market conditions	3.795	.886
Regional accumulation of tacit knowledge	3.709	.842
Change and elimination of the boundaries inside and between organizations in the regional innovation system	3.701	.883
Integration of tacit knowledge with research and development based codified knowledge	3.675	.869

The findings were that international networking had increased the development of employees and organizational knowledge capacity (M = 4.750) in international trade as well as reduced the level of uncertainties and costs that the SME would ordinarily incur in its trade (M = 4.500). Further, the study found that international networking had resulted in the development of dynamic and creative synergy (M = 4.375) among the firms in the international business. The respondents further suggested that through

international networking strategies, they have been able to, to a moderate degree, change their business processes for the better and at the same time, reduce the boundary barriers that exist between organizations in the regional innovation system (M = 3.701).

#### 4.6 International Network Management and Competitiveness

This section of the questionnaire aimed at identifying the perceived contribution of regional networks to the competitiveness of the SME. The researcher sought to establish whether through the adoption of international business networking, the SMEs had increased their competitiveness. The results are tabulated in Table 4.4.

**Table 4.4: International Network Management and Competitiveness**

Statement	Mean	Std. Deviation
It enables firms to match their asset base to the requirements of a shifting business environment and enhances productivity	3.292	1.160
It enables the SME to developing unique offerings that enhance its revenues	3.208	.821
International networking has enabled the SME to apply strategic capabilities earlier and more tactically as compared to their competitors	3.083	.717
It can be used as a colluding tool against common competitors or reduce competition by uniting competitors as partners	3.042	.733
To realize economies of scale	2.958	1.122
To exploit speed to market and therefore enjoy first mover advantage	2.792	.715
Regional inter-firm networks and common know-how cause the emergence of embedded tacit knowledge	2.667	.949
It enables the SME to access complementary resources which a single firm or region does not possess.	2.583	1.148

As a source of competitiveness, international business networking was found to have enhanced productivity as well as facilitated the matching of assets base by enterprises to

their respective requirements of a shifting business environment (M = 3.292). At the same time, international business networking has facilitated development of unique offerings which has enhanced revenues (M = 3.208). Additionally, it was found that international networking had facilitated the application by SMEs of strategic capabilities earlier and more tactically in comparison to their business opponents (M = 3.083) as well as being used a tool to limit the entry and market share of competitors in the local market. The researcher found that SMEs already engaged in international network management exploit speed to market and therefore enjoy first mover advantage (M = 2.7917). Further, regional inter-firm networks create a common know-how that leads to the emergence of embedded tacit knowledge. The respondent further identified that international network management enables the SMEs to access complementary resources which a single firm or region does not possess and consequently enhanced the productivity of the firms.

#### **4.7 Discussions of the findings**

The case of SMEs operating within the Nairobi CBD has reinforced the importance of strategic international business networks for repositioning in an environment that is characterized with stiff competition at the local and international level. The study has disclosed that international networking offers innovation, speed, flexibility, new strategic opportunities as well as the ability of a firm to adjust smoothly to shifting market conditions. As Carlucci et al, (2004) and more recently Zott (2013) point out, an effective organization's network management will help in capturing the market's high potential employees by understanding their motivations, building a winning environment that people will long to belong to and establishing a link between organizations. Further,

international business networking will provide an SME with the capacity of continually reconfiguring its business strategies to respond to the constantly changing business environment and accumulate network resources necessary to meet the demands of a changing market. Therefore, this implies that in a shifty international business environment. International networking will facilitate a more effective adaptation of the business unit to the challenges that come about with the changes. From personal interviews with the respondents and the results of the questionnaire, it was evident that the SME innovation approach is an open one where the relationship between the supplier and the buyer has been altered to a networking relationship with the restrictions and boundaries that previously existed between SME and its customers being removed. This is the type of networking that Granovetter (2005) described as a networking based on the sharing of information and a high level of trust, as opposed to relying on a formal contracts. Such numerous relationships led to research and development alliances with international customers and therefore resulted in new products and services being developed and the setting of technology standards aimed at meeting customers' needs.

Consequently, the study findings are consistent with that of Seitanidi and Crane (2009) who pointed out that international network management as a source of competitiveness springs from its ability to co-produce resources which are intangible such as fresh and novel capabilities through employee volunteering programmes and new methods of production resulting from the adoption of sophisticated and highly developed technology and innovation.

The study established that as a result of international business networking, SMEs had been able to increase their respective tacit knowledge capability as well as using the acquired knowledge to improve their production process. This is because effective network management enables a firm's employees to gain access to resources at the hands of their international partners thus resulting in economies of scale and simultaneously avoiding the shortcomings of full organizational integration, for example exorbitant costs of coordination and lower levels of strategic flexibility. Consistent with the findings of Welch et al. (2016), the current study finds that networking enables an SME to gain access to and to share experience and expertise, knowledge and resources in ways that would have otherwise not been possible independently consequently enabling an SME to develop unique product offerings that was found to enhance its revenue line.

There is need for the SMEs to participate in innovation networks in order to secure their survival and success. The research findings suggest that SMEs enter into international business networking with the aim of enhancing their production capacities and reducing uncertainties in in-house structures. This finding concurs with that of Snow et al., (2011) that posits that organizations are basically social constructs as opposed to vehicles for production. Consequently, the participation of these organizations in international networks, in most cases, requires a large investment to facilitate compatibility with the operations of the network partners. As such, the open nature of the network lowers the threshold for SMEs to enter without major investments or resources. Simultaneously, these international networks vary from the commitment-based traditional relationships that based their expectations of value creation upon the survival of the collaboration.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents a synopsis of the key findings of the study as well as the conclusion, limitation of the study, and the recommendations. The research objective was to establish the role of international network management as a source of competitiveness among the SMEs within the Nairobi CBD.

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

It is evident from the findings of this research that international networking is key to SMEs as it increases their capacity to compete at an international level and access crucial external relations with new knowledge.

In the present day's competitive environment which is characterized by an ever increasing number of competitors and a stagnant market, the study reinforces the view that there is need for business units and especially SMEs to venture outside their national borders to the international market. However, this expansion certainly comes with its own challenges and one notable way of limiting these challenges is through the establishment of international business networks with value creating partners. The study highlighted different reasons why local SMEs may enter into partnerships with international partners which include the need to increase the enterprise's capacity to compete at an international level, the enterprise's ability to enhance its productive capacity and the enterprise's ability to access external relations with new knowledge. Further, the study found that

international business networking enables local SMEs, which at present have a low technological capacity, to leverage this with international partners with increased capacities and consequently enhancing their ability to capture the international market customer base.

International business networking was also found to impact positively on the SMEs' operations. Among the operational areas that were found to be affected positively include organizational knowledge capacity as well as management of organizational costs that the SMEs incurs in their trade and knowledge capacity of the employees. Further, the study evidenced that international networking resulted in the development of dynamic and creative synergy amongst the firms in the international scene. The study also found that through international networking strategies, the firms have been able to change their business processes and at the same time reduce the geographical boundary barriers in the regional innovation system. Consequently, it is clear that international business networking had numerous positive effects on the SMEs' operations.

With regard to the role of international business network on the firm's competitiveness, the study revealed that SMEs benefited from international network management through their capacity to apply strategic capabilities more tactfully as opposed to their competitors and also being able to develop unique offerings that enhances their revenue base. In addition, regional inter-firm networks create a common know-how that leads to the emergence of embedded tacit knowledge. The respondent further identified that international network management enables SMEs to access complementary resources

which a single firm or region does not possess and consequently enhanced the productivity of the firm.

### **5.3 Conclusion**

Lately, there has been an increase in the number of local businesses that engage in international business networks. Accordingly, it is important to understand the motive that would drive a business unit to form an international business network. An assessment of the motives of forming international business networks disclosed several factors. These factors will need to be analyzed before an enterprise can choose to enter into an international partnership. Based on the research findings and theoretical discovery of other researchers, it can safely be concluded that international business networking is an important ingredient to entering an international market and also operates as a source of competitiveness amongst the various business enterprises. As a result, it is imperative that each SME seriously considers expanding its market share and geographical exposure, as a way of diversifying its risk. This can be achieved through extending its business lines to the international market and networking.

### **5.4 Recommendations**

Policy makers should come up with guidelines and regulations to cultivate and enable business international networking aimed at increasing integration regionally and internationally as this will result in a greater and faster achievement of the goals of the region and globally.

SMEs should be encouraged to participate in international networks in order to increase their productivity and ultimately, their revenues. Business enterprises should adopt new technology such as user driven development to be implemented in their research and development operations giving them a competitive advantage over their competitors.

### **5.5 Limitations**

As a result of the nature of the study which was methodological, any generalization based on the results is intrinsically limited. However, this study offers a fertile ground for conduction of further studies using methods that will tolerate statistical generalization. The major weakness in this study was the limitation in scope because it was conducted with a strong presence of employees working at the SMEs. It is possible that this exposure and working environment contributed significantly to their perception of the influence of business networking as a source of competitiveness to the SME and therefore there is need to also get the views of international partners.

Further, the study used a descriptive research design and there is need to employ various inferential techniques to validate further the results. This study was also limited by other factors in that some respondents may have been biased or dishonest in their answers considering that they were all commenting on their employer. More respondents would have been essential to increase the representation of respondents in this study and allowed for a better check of consistency of the information provided. However, despite the above limitations, the findings presented in this paper have important policy implications.

## **5.6 Recommendation for Future Studies**

There is a need for studies which focus on transaction costs related to value networking and knowledge searching. Another notable topic that future research may consider addressing is the utilization of user knowledge in the integration of SMEs.

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## **APPENDIX I: INTRODUCTORY LETTER**

**RUTH NJERI KIRUNGA**

P.O. Box 28303 - 00100

**Nairobi.**

September, 2016

Dear Respondent,

**RE: RESEARCH QUESTIONNAIRE**

This questionnaire (attached) is designed to gather information on the role of international network management as a source of competitiveness among SMEs within the Nairobi Central Business District. This study is being carried out for a business administration project paper as part of the requirements in partial fulfillment of a Master of Business Administration from the University of Nairobi.

Please note that this exercise is undertaken strictly as an academic exercise geared towards the attainment of a Master of Business Administration. I hereby assure you that all information provided will be treated with utmost confidentiality. Your co-operation will be greatly appreciated.

Thank you for your time and your anticipated kind response.

**Yours faithfully,**

Ruth Njeri Kirunga

## APPENDIX II: QUESTIONNAIRE

### Section A: Demographic Characteristics of Respondents

1. Name/Identity of the SME (Optional).....
2. Highest level of education qualification?
  - a) Post graduate level ( )
  - b) University Degree ( )
  - c) Tertiary College Diploma/Certificate ( )
  - d) Secondary ( )
3. Continuous length of service with the SME?
  - a) 0-5 years ( )
  - b) 5-10 years ( )
  - c) 10 years and over ( )
4. How long has the SME operated in Kenya?
  - a) 5 years and below ( )      b) 6–10 years ( )
  - c) 11–15 years ( )      d) 16–20 years ( )
  - e) 25 years and over ( )
5. Number of employees in your SME
  - a) 100 and below ( )
  - b) 100 - 199 ( )
  - c) 200 - 300 ( )
  - d) 300 and over ( )
6. Has your SME established any international network?
  - Yes ( )      No ( )

**Section B: International Networking Process**

7. To what extent is your SME influenced by the following factors to undertake international networking? Use 1 to represent Not at all, 2 to represent Small extent, 3 to represent Moderate extent, 4 to represent Great extent and 5 to represent Very great extent.

<b>Reasons for international networking</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Insufficient quality systems of regional firms					
Insufficient technological levels of regional firms					
Production and organization structures of regional firms do not fit to you					
Absence of skilled employees in region					
External relations provide new external knowledge					
Difficulty at finding firms from your region					
To increase the firms capacity to compete at the international market					
To enhance the firms productive capacities					
To reduce uncertainties in the internal structures					

8. To what extent has international networks contributed to your firm operations as an SME? Use 1 to represent Not at all, 2 to represent Small extent, 3 to represent Moderate extent, 4 to represent Great extent and 5 to represent Very great extent.

<b>International Network Contribution</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
International networking has reduced the level of uncertainties and costs that the SME incurs in its trade					
There has been increased flexibility towards changing market conditions					
Increased development and knowledge capacity					
Change and eliminate the boundaries inside and between organizations in the regional innovation system					
Regional accumulation of tacit knowledge					
Development of dynamic and creative synergy					
Integration of tacit knowledge with research and development based codified knowledge					

**Section C: International Network Management and Competitiveness**

9. To what extent have regional networks contributed to competitiveness of your SME?  
 Use 1 to represent Not at all, 2 to represent Small extent, 3 to represent Moderate extent, 4 to represent Great extent and 5 to represent Very great extent.

<b>International Network and Competitiveness</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
International networking has enabled the SME to apply strategic capabilities earlier and more tactically as compared to its competitors					
It enables firms to match their asset base to the requirements of a shifting business environment and enhances productivity					
Regional inter-firm networks and common know-how cause the emergence of embedded tacit knowledge					
It enables the SME to access complementary resources which a single firm or region does not possess.					
It enables SMEs to developing unique offerings that enhance their revenues					
To achieve economies of scale					
To exploit speed to market and therefore enjoy first mover advantage					
The SMEs can use it to reduce competition by uniting competitors as partners or as a collusion tool against common business opponents.					

**THANK YOU SO MUCH FOR YOUR TIME**