

E-BUSINESS PRACTICES BY SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN THE CRAFT INDUSTRY IN KENYA :

THE CASE OF MEMBERS OF AMEGA IN NAIROBI

UNIVERSITY OF NAIROBI
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By

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DEDICATION

This project was made possible through the almighty God.

I dedicate this Research Project to my late mother (Mrs. Sheila Joliffée Gondo) who not only encouraged me to join the University of Nairobi but was my tower of strength and mentor encouraging me to persevere when I did not have faith in my abilities.

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ABSTRACT

The focus of this study was to determine the extent to which the Internet is being used for e-Business practices by the craft industry in Kenya. The study also looked at the factors influencing the use of the Internet by some members of AMEGA who are already in the craft export business.

The need for this study arose from the fact that the rapid pace of technological developments has changed the way businesses operate. Of significant impact is the adoption and utilization of the Internet as a medium for communication and e-business. An increasing number of SMEs in Africa are using the Internet for a variety of functions including e-mail as a means of communicating with their clients. With the increased number of ISP activity in Kenya, with 18 registered in Nairobi alone according to Mbayah, 2000, more and more SMEs are seen to be taking up internet and e-mail services from these ISP's to conduct their business electronically. There is therefore an expected increase in the use of the Internet as a medium for conducting e-business by the SME sector, which influenced the research question for this project.

AMEGA was chosen as the focus of study as it consists of exporters of craft products to various overseas destinations. 55% of the respondents were found to have had more than 6 years of experience in exporting crafts, which made them an ideal study population for purposes of this research. An analysis of their current practices inclusive of Internet usage was thus done in this study.

The overall results revealed that 90% of the craft exporters interviewed were using the Internet through e-mail or web site technology to communicate with their clients. Also 100% of clients as revealed by the respondents prefer to use e-mail for business communication. From the respondent group itself, 95% indicated they also preferred e-mail as opposed to the traditional fax. Therefore the exporters are being coerced into adopting the same technology as their clients.

With 55% of the respondents exporting between 41 and 80% of their products, it was concluded that the core business of these AMEGA members is export oriented. However, it was found that only 35% of total respondents received sales orders by e-mail. This was attributed to the small number (25%) of exporters with websites for displaying their products and thus invoking e-mail enquiries and orders. Therefore with more Internet activity and usage by the exporters through websites, there is potential to increase volume of business coming through form craft exports.

Conclusions drawn were that should more exporters of craft take up the Internet as a mode of displaying their wares and electronically trading, the volume of exports sales is likely to increase. The members of AMEGA should therefore consider adopting the Internet as a medium of conducting business. The two channels of accessing the Internet,

the ISP's and Cyber cafés are well represented in Nairobi to allow for a faster uptake of Internet technology.

Though conclusions reached were general and tentative, overall they appear to suggest that the use of the Internet could open more markets to an unlimited audience with no time constraints (24 hr businesses). This may have the positive effects of increasing export sales revenue for the country, complementing other revenue earners like flowers, tea and coffee exports. In the development equation, this is an avenue that can be harnessed for poverty alleviation and wealth creation for the unemployed and underprivileged. Further more, women were identified as the main players in this industry therefore this could bring women to the fore of development and elevate their status as contributors to economic development.

There is indeed scope for further research in this area as the Internet is a technology that will be in existence in the long run. An interesting study would be to look at the extent of the impacts on the actual consideration and failure to consider the Internet as a new way of conducting business communication. The dynamic nature of the Internet means businesses will be forced to continue deploying internet technologies strategically therefore research in strategic deployment of the Internet would be another area of study. Yet another possible study would be to look at the relationship between demographic factors in developing countries and speed of uptake of the Internet. This would facilitate deployment of Internet technologies and identify sectors requiring capacity building and further training.

LIST OF ACRONYMS AND ABBREVIATIONS

AGOA	Africa Growth Opportunity Act
AMEGA	Association of Makers and Exporters of Gifts and Allied articles
CBIK	Center for Business Information of Kenya
CBS	Central Bureau of Statistics
DAFINA	Danish Finance Association
DFID	Department of Finance and International Development
EC	Electronic Commerce
ECU	European Commission Union
GAA	Gift and Allied Articles industry
HTML	Hyper Text Mark-up Language
ICT	Information and Communication Technology
IFC	International Finance Corporation
ILO	International Labour Organization
ISP	Internet Service Provider
IT	Information Technology
ITU	International Telecommunications Union
Jua Kali	Informal sector in Kiswahili language
KICC	Kenyatta International Conference Centre
KNCF	Kenya National Crafts Fair
LDC	Least Developed Countries
MESP	Micro-Enterprise Support Programme
MSE	Micro and Small Enterprises
PCs	Personal Computers
POP	Point of Presence
PR	Public Relations
PRSP	Poverty Reduction Strategy Papers
SME	Small to Medium scale Enterprises
UNDP	United Nations Development Programme
UNCTAD	United Nations Conference of Trade and Development
UNEP	United Nations Environment Programme
URL	Uniform Resource Locator
WAP	Wireless Application Protocol
WWW	World Wide Web
YWCA	Young Women Christian Association

CHAPTER 1

1.0 INTRODUCTION

1.1 Background

The success of firms is dependent on their ability to recognize and proactively respond to internal and external environmental challenges. This applies to Small and Medium scale Enterprises (SMEs) as well. SMEs are becoming a prominent industry by virtue of their being the recipient of the unemployed labourforce. Not only do they provide employment but the sector is gaining recognition as one of the drivers of poverty reduction in the development equation. In this regard, SME owners/managers/directors should, like their large business counterparts aim at making their organizations responsive to any environmental changes (Benton and Lloyd 1992).

The rapid pace of technological developments has influenced the way businesses operate in the world today. The area of Information and Communication Technology (ICT) in particular, has been cited by the UNDP Human Development Report (2001) as one of the two domineering technologies that will help alleviate poverty in developing countries, the other being biotechnology. This study will explore the extent to which SMEs are aware of the benefits of using ICT specifically the Internet in their businesses, the concept of e-business.

E-business (electronic business) is the conduct of business on the Internet. It includes activities of buying and selling as well as servicing customers and collaborating with business partners. The term e-business itself is derived from such terms as "e-mail" and "e-commerce". An increasing number of small and medium sized enterprises as well as large corporations in Africa are making use of the Internet for a variety of functions (IFC,

1999). Currently the majority of users use electronic mail (e-mail) as a means of communication, while a smaller number have corporate websites for marketing purposes.

As organizations seek to obtain strategic advantages and sustain competitiveness at a global scale, they are finding that the Internet cannot be left out of the equation. Successful business organizations in the next millennium will therefore be those that embrace continuous change, adapting to changes in technology and harnessing the strength of the Internet as the most effective and efficient communication medium today.

There is no universally accepted definition of an SME. Several definitions have been made by several authors as detailed in the literature review. For the purpose of this study, SMEs are taken to be enterprises with an employment level of up to 50 employees including owners who work in the enterprises (adopted from the 2nd MSE Sessional paper, ICEG 1999). This is the only paper that has attempted to define SMEs in Kenya.

A recent message from the ITU Secretary –General (Daily Nation/Friday, May 17,2002,) supported the view that access to information technology can help to launch small companies and groupings of artisans in the poorest and most isolated areas of the world into the mainstream of national and even global markets. The Africa Growth Opportunity Act (AGOA), enacted recently to encourage trade between Africa and the USA is one initiative to promote penetration into markets outside the domestic and regional bounds of developing countries. This is one of the initiatives that opens up opportunity to both large and small enterprises.

The craft sector in particular could benefit significantly by creating a niche market place on the Internet where global visitors will easily access information about their products. This would facilitate e-business processes of buying online rather than rely on exhibitions and tourism to reach global markets.

A number of SMEs in Kenya are currently represented on the Internet. Some through the Center for Business Information of Kenya (CBIK) and others in their own right. The

question however is whether or not all SMEs are able to tap into the electronic services available to fully utilise such websites.

Currently there are many challenges facing the SME sector as a whole in terms of marketing their products in foreign markets. This was highlighted in several workshops on SME development organised by the donor community in Nairobi, of which the researcher was privileged to attend. The donors included UNDP, DFID, IFC and DAFINA who are active in the area of SME development in general and as documented on their respective websites. These challenges include lack of access to information about markets and technology; lack of capital both short and long term credit, inadequate know-how of other business services, training and consulting services available and general knowledge of the business environment i.e. legal/regulatory policies, government capacity, entrepreneurship and infrastructure.

The informal nature of the SME business practices, literacy levels as well as the geographical remoteness of the Jua Kali members themselves makes access to them difficult and infrequent. This research aims to capture some of these practices relating to the lack of access to information and clients to determine how the internet could be a facilitator through e-business practices for the SMEs.

The craft industry has been chosen as the specific area of study. They are one specialised SME group that is already exporting their products in foreign markets. This will provide empirical evidence of some of the issues faced in attempts to access global markets by Kenyan SMEs. The experiences of some members of one umbrella organisation for craft associations in Kenya, AMEGA, will be documented by this research.

1.2 About AMEGA

AMEGA is the Association of Makers and Exporters of Gift and Allied Items. AMEGA has its headquarters in Nairobi. The Association consists of a board of directors with 12 members under the chairman. The purpose of the association was to promote and cater for the interests of Kenyans who engage and establish themselves in the business of Gift

and Allied Articles Trade. The idea of such a body was mooted in October of 1998 by two (2) patriotic businessmen who were involved in the Industry. On November 24, 1999, five (5) members of the Gifts & Allied Articles Industry.

AMEGA has a formula for success with the objective of promoting Kenyan crafts to the foreign marketplace. Its mission statement reads *“We aim to Promote, Protect and Preserve the National and African Heritage, Art and Creativity as well as a healthy environment.and at the same time facilitate the creation of wealth and employment in order to alleviate rural and Urban Poverty”*.

AMEGA provides various services to its members which include advocacy, membership recruitment and convening training and workshops. The workshops include stakeholders ranging from designers and artists, local retailers and wholesalers, producers and exporters and other Stake Holders. AMEGA also has the task of organizing Trade Missions and Exhibitions and the major role of marketing at local and international levels.

1.3 Research Problem

There appears an emerging pattern of interest on the internet by SMEs. The reason for this interest is the realization that the Internet is a faster and effective method to communicate with potential clients. However due to the cost of internet services in Kenya and the infrastructure for internet business in the country, very few SMEs are able to access the internet nor develop their own websites.

The inspiration for this research has come about from the realization that SMEs in the craft industry have products that are marketable on the world market but they have not fully explored the Internet as a medium to market their goods.

Some members of AMEGA have their own websites that they have developed and hosted on the Internet as individuals. It is however not clear the extent to which these members are using their websites nor do we know the motivation to use the internet by this sector. It could be just a brochure displayed on the net with no transaction going through the site, or simply a banner page to solicit e-mail enquiries for crafts.

The study therefore seeks to answer the following question: -

To what extent is the Internet being used for e-business practices by the craft industry? What are the influencing factors in the use of the Internet by some members of AMEGA that are already exporting to overseas clients?

1.4 Objectives of Study

The objectives of the study are: -

- a) To establish the extent of Internet usage by the SMEs in the craft industry in Kenya.
- b) To identify the factors that influence AMEGA's members' current e-business practices.

1.5 Importance of Study

- a) The Study is intended to benefit the SME sector as a whole looking at putting their wares on the Internet to open up new markets and sell to the global village.
- b) The study will benefit other entrepreneurs on the use of Internet technologies to conduct business.
- c) The study will provide information that would be useful generally to the Government of Kenya for design and implementation of ICT policies directed towards poverty reduction.

- d) The study will be useful especially to the Ministries of Trade and Labor that develop programmes for the sustainable development of the SME sector.
- e) The study will enlighten the donor community as to where to invest in technology to boost SME trade overseas.
- f) Scholars would use the results of the study to further research in the Internet and SMEs.
- g) The current donor for AMEGA to develop a nationwide portal encompassing the whole Jua Kali sector could use the result of the study.
- h) The results of the study may be useful in prompting the government to de-regularize the tele-communications industry and improve the infrastructure for Internet services.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The area of e-business and the Internet itself is relatively new to business organisations in general and even more so with respect to SME organizations. In the Kenyan context, Internet Service Providers (ISPs) only started operating around 1995, with Africa Online as the pioneer in Internet services for the public.

Admittedly the Internet has revolutionised not only the way organisations conduct business but also communicate today. For example, many companies in Kenya are sending salary information via electronic switches to the banks eliminating the use of diskettes. In the SME world, e-mail is complementing the fax as a means of communication with clients.

In the case of the SMEs, the strategy is to remain competitive on the global market. On the other hand the internet is not a solution in itself. The internet has resulted in unexpected competition over the web. Players that do not necessarily have business premises or products for that matter are using the web interface as the conduit to wider markets.

2.2 Strategy and the Internet

A consensus is emerging in which Porter contributed, that after the failure of “dot.coms”, the Internet should be viewed as an adjunct to strategy and not as a strategy in itself (Porter, 2001).

Porter (2001), confirmed that the Internet is extremely important new technology, and it is no surprise that it has received so much attention from entrepreneurs, executives, investors... He cites an important fact that Internet technology provides better

opportunities for companies to establish distinctive strategic positioning than did previous traditional technologies. This strongly justifies the need for this research to prove the same for SMEs in the craft industry who already have an advantage of “uniqueness” of products.

Porter goes on to say the Internet per se will rarely be a competitive advantage but companies that will succeed will be those that use the Internet as a complement to traditional ways of competing. This seems to contradict his earlier point that the Internet the Internet will provide better opportunities to create distinctive strategic positioning because companies seek to create the distinctive positioning in order to compete more effectively. This will be confirmed by the outcome of this research where the survey results will indicate the factors leading to the motivation to use the Internet as a medium to communicate with global markets by the SMEs.

In line with the 5 forces model, Porter shows how the Internet influences industry structure. First the Internet’s ability to expand the size of markets creates new substitution threats, which is true in this case as entrepreneurs can own web sites without having any physical business premises at all. Porter goes on to say that the Internet provides a channel for suppliers to reach end-users thus reducing leverage of intervening companies or “middle men”. This is a fact because if an exporter can communicate direct with the customer there is no need for agents or distributors who only add an unnecessary layer in the flow of communication within the supply chain. This further affects the bargaining power of suppliers.

Porter says the Internet widens the geographic market increasing the number of competitors and migrating competition to price. This is a very important issue to be considered when making decisions to use the internet for e-business as prices are transparent which gives room to price manoeuvring. In fact price becomes the only possible basis for competing which can result in under-cutting as well. Lastly, Porter mentions the Internet as reducing barriers to entry such as the need for a sales force, access to exhibitions in the case of SMEs, among other factors. These fall away to a large

extent as the Internet can facilitate the selling process but they are still useful to help market the internet web site to attract visitors to the site.

The above will contribute to this research in weighing the odds of the 5 forces model and the Internet specifically e-marketing for the SME sector in the Kenyan context.

2.3 E-business and e-commerce Practices

E-business (electronic business), derived from such terms as "e-mail" and "e-commerce," is the conduct of business on the Internet, not only buying and selling but also servicing customers and collaborating with business partners.

One of the first to use the term was IBM, when, in October 1997, it launched a thematic campaign built around the term. Today, major corporations are rethinking their businesses in terms of the Internet and its new culture and capabilities. Companies are using the Web to buy parts and supplies from other companies, to collaborate on sales promotions, and to do joint research. Exploiting the convenience, availability, and worldwide reach of the Internet, many companies, such as Amazon.com, the booksellers, have already discovered how to use the Internet successfully and have managed to capture a loyal following. It does not necessarily follow though that a popular website makes money because in terms of revenue, Amazon is not really netting the expected high revenues from Internet trade. The site is just well marketed and well positioned. SMEs in the developing world can also jump on this bandwagon, cautiously though and with realistic expectations, which is the essence of this research paper.

According to the E-commerce guide from the Internet and IT Network magazine (May 18, 2002), E-commerce (electronic commerce or EC) is the buying and selling of goods and services on the Internet, especially the World Wide Web (www). In practice, this term and a newer term, e-business, are often used interchangeably, which can be confusing.

A report by the Australian government, "Creating a Clearway on the New Silk Road" (2000), estimated the value of the internet commerce to range from between 1.3 to 3.3 per cent of global domestic product by 2001, equivalent to the size of the Australian economy. The report states that in Africa, as expected, South Africa remains the continent's business leader in e-commerce, with an estimated US\$2.5 billion worth of transactions by 2002, (UNCTAD, 1998). This sets the stage for internet trade and provides a strong justification for this research.

"E-commerce in Least Developed Countries" (2000), which is the model of this research paper, was a survey of ten Least Developed Countries¹ conducted for the E-commerce division of UNCTAD with a view to identify enterprise case studies engaged in e-commerce, identify potential opportunities for LDCs in the area of e-commerce and to identify partners i.e. other government and non government institutions that are currently promoting and/or supporting e-commerce activities in LDCs. Information was gathered in preparation for the Digital Economy event which formed part of the third conference on Least Developed Countries in Brussels (May 18, 2001).

The survey method was used where UNCTAD contracted two consultants to visit ten least developed countries to conduct an e-commerce survey. The purpose of the survey was threefold: first to identify enterprises that have successfully applied e-commerce strategies in their business operations. To identify potential business opportunities resulting from the world-wide-web and web enabled technologies. Also to identify organizations (government, non government, international or private) actively engaged in the promotion and support of e-commerce initiatives at enterprise level.

Information was gathered via desk research and country visits. Visits were on average three days per country. Key people and organizations were identified in each of the countries to assist in identifying e-commerce active enterprises. The enterprises were

¹ Countries visited included Bangladesh, Cambodia, Ethiopia, Madagascar, Mozambique, Myanmar, Nepal, Tanzania, Togo and Uganda.

interviewed according to a predetermined questionnaire. It is important to note that the findings refer only to the LDCs surveyed.

From a physical infrastructure point of view, it was found that Internet access is available in all countries surveyed albeit in a very restricted manner in Myanmar. The quality of Internet access (in terms of number, reliability, capacity, cost and range of services of ISPs) ranges from very good in cities such as Dhaka, Kampala and Dar es Salaam (offering a range of wireless options) to very poor in Addis Ababa and Yangon (prohibitions, long waiting lists, low bandwidth, and expensive).

It was also found that availability and quality of telecommunications has improved dramatically in LDCs. Most enterprises now have access to some form of telecommunication, either fixed line or wireless. Quality and reliability does vary between countries surveyed and between cities and rural areas. Enterprises in Kampala will soon have access to fibre optic telecommunication links whereas Dhaka still have problems with regular downtimes and low bandwidth.

Most countries surveyed reported relatively high local telecommunications costs (upward of USD 10c per minute) with the exception of Ethiopia. This does impact on Internet usage as most Internet connections are dialup. The survey found that there is a correlation between those countries that have liberalized their Internet access and those that have not in terms of availability and quality of Internet access. Myanmar and Ethiopia have not issued private ISP licenses and as a result have a very poor Internet infrastructure.

Findings from an e-commerce point of view showed that hosting services in all countries surveyed are inferior to hosting services in the USA, Canada and other developed countries. This is due mainly to them not being able to offer facilities required for e-commerce such as secure electronic payment facilities, applications services, website performance and sophisticated data base services such as listings.

The proliferation of privately owned Internet cafes has surprised many and provide a viable access option for those enterprises/individuals that do not have their own computers and telecommunications access. Kathmandu (Nepal) has over 1000 Internet cafes, possibly due to tourism. However, even cities not known as a tourist destination are experiencing growth in this area (Lome (300), Dar Es Salaam (100), Dhaka (50), Kampala (25) and Maputo (10)). The popularity of Internet cafes (i.e. Lome (300) vs Kampala (25)) appear unrelated to cost or quality of ISP services but rather to a greater or lesser awareness of the general public regarding the Internet and its benefits. Most people visiting Internet cafes use the service for email and surfing for news and entertainment.

Most countries surveyed have GSM cellular networks, and in some cases, more than one operator (i.e. Uganda, Tanzania, Bangladesh, Nepal). Ethiopia and Mozambique have only one state operator. The presence of GSM networks is important for e-commerce because of the number of e-commerce applications that are now available that can be carried by such networks.

Those countries with more than one mobile operator have benefited from the resulting competitiveness. Mobile operators have built networks covering large parts of the country, have reduced call costs, and have made access easier for the wider population by offering prepaid options and access to subsidized handsets. These product offerings have resulted in unexpected subscriber numbers in excess of 150 000 in countries like Tanzania, Uganda and Bangladesh.

It was found that joint ventures between ISPs and cellular operators are taking place enabling ISPs to set up POPs in rural areas. CyberTwiga (ISP) and Mobitel (Cellular operator) in Tanzania have entered such a relationship. Due to a lack of a local credit management infrastructure, virtually no local banks in the countries surveyed issue credit cards (even multinational banks located in LDCs) and very few businesses can accept credit card payments (usually only hotels and tourist orientated shops).

The same research identified business to consumer e-commerce (international) as being more dominant. Almost all the identified enterprises selling a product or service online were business to *unique consumer* e-commerce models. All focused on online selling to a small niche market located in industrialized countries. Examples include Ethiogift.com (Ethiopia) and Munshi.com (Bangladesh) who market the concept of non-resident Ethiopians or Bangladeshis buying gifts online (sheep, flowers etc) to be delivered to relatives or friends living at home. Of the fifteen enterprises chosen as success stories, six were classified as business to consumer models. Of that, five were focused on small niche markets such as the Diaspora market.

Other examples of unique offerings include enterprises selling traditional textiles, garments, music, food etc to their respective Diaspora living abroad, or to small niche markets. Examples include LifeinAfrica.com (Uganda) selling traditional cloth to African Americans and SimplyAfrican.com (Tanzania) selling high quality African art to US art-lovers.)

This report explains use of the Internet for e-commerce in terms of the physical infrastructure, which includes quality of access, bandwidth consideration, proliferation of ISPs and cost. It does however leave the reader wondering about the actual extent of usage of the Internet. The report does not go deeper into the types of Internet services being offered be it e-mail, e-fax, electronic data interchange (EDI) or website interaction. It does not elucidate on the way the Internet is being used save for the indication that web sites exist through the casual mention of URL's like LifeinAfrica.com that are used in the context of selling.

The researcher therefore identified gaps in this study, which include the lack of analyzing the way in which the Internet is being used for selling purposes. Also identified is the lack of itemization of the type of Internet services offered nor detail as to which are used the most or the least.

2.4 SMEs and the Internet

Considerable attention has been paid in recent years to the issue of how SME participation in exports can be increased.

Electronic commerce through the Internet opens up substantial new areas of international trade to developing countries. One sector which has been identified by research currently being undertaken by the YWCA Kenya Chapter (2002) on behalf of the Sustainable Development Programme for the United Nations Development Programme (UNDP), as one with the greatest potential to benefit is the Small to Medium scale Enterprises (SMEs). The research cites SMEs as set to benefit from the low cost of access to the global marketplace. This is an economic opportunity, which is in line with poverty reduction (Kenya PRSP, 2002).

The report dwells on just that, the benefits of using the Internet for economic gains. It concentrates on the outcome of using the Internet and not so much the way the Internet should be used to achieve these outcomes. This report therefore unlike the previous one by the Australian government leapfrogs into the outcomes and could thus be a perfect conclusion to the Australian report. It still does leave the same gap however of not going into the extent of internet usage required to achieve the outcomes documented nor the services that should be pushed for the same end.

Fairly related researches to this study undertaken so far include one by Research International (RI 2000), under contract from Africa Online Holdings and Barclays Bank Kenya, to examine the feasibility of a marketing portal project for the SME sector in Kenya. The research objectives were to specifically identify and analyse SME needs and requirements related to business development.

It was important then to understand what the key success factors for an Internet access/portal in order to be accepted by the SME are, and provide guidelines on how to design a web portal capable of meeting SME needs and expectations.

A survey method was used where Barclays provided the targeted list of SME that bank with them and Africa Online's client list. Focus group discussions alongside questionnaires were used as the tools for data collection.

The findings of this research included among others the need for an information highway for SMEs to be able to communicate effectively, find new clients, find new suppliers and access any information regarding trade which is congruent with this research topic. These are topical issues in any discussions on SMEs as gathered by the researcher in the various donor-convened sessions and workshops on the SME sector attended in the course of 2001 and 2002 in Kenya.

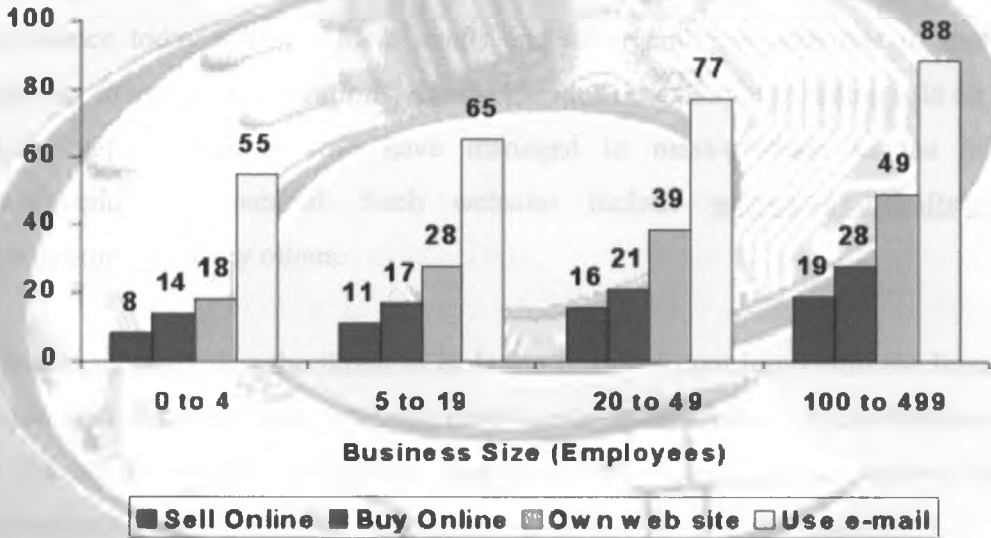
This is the only report so far that tried to itemise the type of internet services that SMEs can use ranging from e-mail to web presence however it did not like the previous reports dwell on extent of usage. The gap thus remains the same as the others. Also other details of the demographic characteristics of the SMEs being surveyed were ignored and these do have implications of uptake of Internet technologies.

Yet another recent study on strategy practices by Internet Service Providers (ISPs) in Kenya by Mbayah (2000) highlighted the fact that the Internet has become a new marketing and sales tool for travel to Africa. Tourists and crafts are complimentary functions and thus improvements in tourism will influence developments in the craft sector as well. Zimbabwe for example offers a complete tourism directory on the net, and a visitor on this site will be able to get information on every aspect of a trip. Crafts could very well be included on this site to promote crafts.

The attributes of the Internet have been examined in detail in "Driving Forces on the New Silk Road" (2000), which concludes that the Internet is a powerful tool for international trade. Some of the attributes, which would affect the Kenyan SME sector, include reducing the impact of time and distance in marketing goods overseas; allowing any item that can be digitized to be displayed in front of a rapidly growing international market;

creating efficiencies in trade that can make internationally traded goods and services more competitive.

Types of Internet Usage Among SMEs



Source: CFIB, Q2 2000

Fig.1.1 Internet usage among SMEs

Figure 1.1 shows some of the e-business services that SMEs use worldwide. It shows that an increased proportion of SMEs are using the Internet for e-mail and website interaction more than buying and selling online.

2.5 Developments in E-marketing

One of the challenges brought about by globalisation forming part of the external environmental factors affecting businesses today is how to respond to increased competition. Gone are the days when one's competitor was the business organisation

from next door or within the same region. Today's competition is coming from geographically dispersed firms from any part of the world who are now operating in cyber space. This makes the aspect of physical location irrelevant in the marketing equation and communication a big factor in accessing markets.

A major technological environmental factor affecting SME business in Africa is the Internet itself, which has brought competition into their own backyards. Many websites are in existence today selling African crafts and other products with the originating companies based in overseas locations. Kamba kiondos for example are being sold on the Internet by Japanese firms who have managed to mass-produce kindos using synthetic/generic raw material. Such websites include www.swahilicrafts.com, africancrafts.com and many others.

This means that SMEs face the threat of isolation if they do not jump onto the Internet bandwagon of doing business and gaining prominence on the web to a wider audience of buyers. The Internet is the information highway that will provide the gateway into overseas markets for the craft industry in Kenya and other African countries.

E-marketing is thus the response to this technological environmental factor using the Internet as the back-borne of communication with the markets for SME wares. The definition that will be used in this paper is one given by Little (2001) which states that e-marketing is the management of customer interactions in a hyper-mediated environment to benefit the relevant person or company. Little goes on to say the hyper-mediation is dominated by Internet-based technologies like the up-coming Wireless Application Protocol (WAP), which integrates mobile phones into the Internet. It is therefore about the relationship between the business organisation and the customer (both internal and external).

It can therefore be concluded that e-marketing is Internet-based marketing that will bridge the challenge of increased competition in cyber-space. The challenge lies in getting information about customers and how to interact with them individually.

2.6 SME's in Kenya

There is no generally accepted definition of SMEs. According to Subramanian in his article, *Export potential of SMEs in developing countries, some general issues*, one study has identified more than 50 definitions in 75 countries. Frequently, criteria for defining in a country may be based on the purpose for which the identification is required. To this end therefore different definitions may be current at any one time. Thus the definition varies among countries.

The IFC's SME Department is currently working with the following definitions: micro enterprise-up to 10 employees, total assets of up to \$100,000 and total annual sales of up to \$100,000; small enterprise-up to 50 employees, total assets of up to \$3 million and total sales of up to \$3 million; medium enterprise-up to 300 employees, total assets of up to \$15 million, and total annual sales of up to \$15 million.

Another such definition by the Commission of the European Communities (96/280/EC) defines SMEs as having fewer than 250 employees and either a turnover not exceeding ECU 40million, or an annual balance-sheet total not exceeding ECU27million. Where it is necessary to distinguish between small and medium-sized enterprises, the "small enterprise" is defined as an enterprise, which has fewer than 50 employees and has an annual turnover not exceeding ECU 7million. Where it is necessary to distinguish micro-enterprises from other SMEs, these are defined as enterprises having fewer than 10 employees.

While these definitions are admittedly subjective and still under review by these bodies, they are broadly consistent with those used by most other international financial institutions and United Nations agencies. It should be noted that the numbers shown above depend heavily on choice of these (or any other) definitions.

For purposes of this research the small -enterprise definition by both the IFC SME Department and the Commission for European Communities is closest to the structure of the SMEs in Kenya and will thus be adopted for guidance in this research.

Kenya is one of the countries where the study of SMEs has been taken seriously beginning with the now well-known study of the informal sector by the International Labour Organisation (ILO) far back as 27 years ago (ILO report, 1972). The history of the informal/jua kali sector since its discovery in 1972 has had a great deal of paper attached to it from the ILO report mentioned above to the 1986 Sessional Paper, to the MSE Sessional paper of 1992, to the draft framework of 1999.

The trail of paper therefore started with the ILO report of 1972, then the Government of Kenya in both 1986 and 1992. The ICEG also had theirs in 1999.

These papers have been quite influential in the donor community and amongst academic analysts of the sector, but as argued by Kenneth King, Center of African Studies from the university of Edinburgh(2000), in his paper, *Sustaining Micro-and Small Enterprises in Kenya: Structural Challenges to Implementation Reform*, the papers have had very little effect on Jua Kali development.

There are 1.3 million Small to Medium scale Enterprises in Kenya, of which 99% employ between 1 and 10 people (The 1999 National Baseline Survey). Out of a total labor force of 14 million, the SME sector employs up to 4 million people, approximately 20% of the country's GDP (Economic Survey report, 2001). Due to these contributions, the SME sector in Kenya has gained recognition as one that has significant advantages in poverty reduction. Given a shrinking public and private sector, and a marked downturn in economic activity, the informal sector provides the greatest opportunity to absorb this redundant labor force.

The goal is to reach global markets at minimal cost and establish a system and processes of buying and selling electronically. The adoption of the Internet could add value to

SMEs' quest for overseas markets, enhancing traditional marketing efforts in the form of e-mail facilities, information portals linked to websites and electronic trading exchanges.

2.7. AMEGA, a craft exporting SME in Kenya

AMEGA, the subject matter of this case study is a specialised umbrella body that is made up of registered Associations in the craft sector. The membership is based on Associations and not individuals in the craft trade. Only those SMEs who come together to form a company or cooperative and are in pursuit of the export markets to complement their domestic efforts are eligible for membership.

By Association is represented the various craft artisans, designers, sales people and those that do administration who come together to form companies or associations. This is the congruent unit that then joins AMEGA. Therefore AMEGA is representative of the population of craft traders scattered in geographically remote parts of Kenya and operating as one voice through Association representation. Association membership therefore extends to about 3000 individuals spread over the whole of Kenya.

AMEGA are thus the organ that markets the craft products. They also provide other ancillary services through a secretariat like marketing, capacity building, organising of exhibitions and participation at overseas exhibitions. AMEGA has recognised the need by its members of a trading website and has already registered a domain name, craftexafrica.com. [Craftexafrica.com](http://craftexafrica.com) will facilitate the displaying of craft products by those Associations that cannot yet afford their own websites but wish to extend their reach to the global market.

2.8 Summary

Not a lot of literature is available on the subject matter of e-business and more so in relation to the SME sector. Most research that has been undertaken in this area has

concentrated on the developed world but admittedly there are marked differences in the developed and least developed economies.

The literature reviewed began with the assertion by Porter that the Internet in itself is not a strategy but a tool used to facilitate strategies of competitive advantage for one. Porter cited that the Internet could also be the downfall of many small time businesses, businesses that cannot respond quickly and strategically to environmental turbulence caused by the Internet's dynamic nature, which brings in unexpected competition from the very same Internet.

The Australian government report, "creating a Clearway on the silk road" (2000), confirmed that there is potential for the developing economies to adopt the Internet for e-business because South Africa is already a success story. "E-commerce in Least Developed Countries" (2000), surveyed 10 LDCs and identified enterprises that have successfully applied e-commerce strategies in their businesses. The research however does not detail the extent of usage of the Internet by these enterprises leaving this gap for further research.

The YWCA Kenya Chapter (2002) report identified the SME sector as one poised to benefit from using the Internet communication highway to access global markets. The report dwells on the economic opportunities but not the actual Internet usage modalities that is, how it should be used and the type of Internet services that would benefit the SMEs. The report did not also cover the extent to which they should be used in line with present day practices in Kenya, which leaves a gap for further research.

Research International's findings as submitted to Africa Online and Barclays bank Kenya limited, was the only report that identified the Internet services that can benefit the SME community in general but also leaves a gap on extent of usage.

Therefore the main gap identified through literature is the one on the extent and magnitude of Internet usage by the SME sector and small businesses in general. The

other prominent gap is the identification of the actual Internet services that are currently in use and how they are being used for business communication. This research therefore attempts to answer these questions using the case study approach of a specialized craft exporting association.

CHAPTER 3

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the steps undertaken in executing the study. Included are the specific methods and procedures that were used in the collection, measurement and analysis of the data.

3.2 Research Design

The study undertaken was in a survey form. The choice of design was influenced by the fact that e-business is a fairly recent phenomenon and not much research has been done in this area. The survey method was thus appropriate to start documenting existing practices. This method has been widely used by similar researches that have been undertaken in both developing and developed countries. The method was successfully applied in the research on “E-commerce in Least Developed Countries” (2000), conducted for the E-commerce division of UNCTAD.

3.3 Population

The population of the study consisted of the 3000 members of AMEGA. The studied population was the Associations who are registered members of AMEGA. The membership listing of AMEGA (see Appendices) as at April 2002 was used to define the population for this study. The study only considered those Associations in Nairobi (30) who are exporting crafts (listing is attached in the appendices).

Nairobi area was identified as being cheaper for the researcher to access the respondents. It was also considered largely representative of the population since the craft artisans

themselves are mainly found in geographically remote areas and tend to be production organs rather than marketers of their own wares. Therefore most of them do not actively participate in the marketing aspect.

To this end therefore they have organised themselves into associations who then represent their interests and are the collective voice of the artisans.

AMEGA has the marketing experience and the networking muscle to solicit donor funds for capacity building, training and other marketing initiatives as well as access to international craft exhibitions. They were therefore identified by the researcher as the right umbrella body to be targeted for this study as some of them are currently using the Internet for e-business and Internet trade. Others however do not have regular access to the facilities required for Internet trade. Individuals do the actual business but should they wish to participate in overseas exhibition forums they go through AMEGA as the umbrella body.

3.4 The Sample

The membership list of AMEGA for Nairobi as at April 2002 was used. The list had 56 associations some of which had no known physical addresses. The intention was to get 30 responses as 30 is considered a representative sample by Daniel and Terrell (1988). Random sampling method was applied using computer aided random sampling.

3.5 Data Collection

Data was collected using a questionnaire (attached as Appendix 2) with both structured and unstructured questions. The questionnaires were administered on a drop and pick as well as personal interviews by two (2) research assistants in the Nairobi area. The researcher complemented the same efforts via e-mail and follow up telephone interviews with the Nairobi members of AMEGA.

Field research was also facilitated through the Kenya National Crafts Fair (KNCF), which took place from the 24th to the 30th of July 2002 at the Carnivore grounds. Some of the sampled members were reached at their stalls and constituted 50% of the sample size. The drop and pick method was also employed for the balance of members not exhibiting at the Fair. The questionnaire captured the following:-

- Section A - demographic information
- Section B - current practices
- Section C - Internet awareness, access and usage
- Section D - quantitative data on hits rates on sites, on-line Enquiries, no. of orders via e-mail etc.

3.6 Data Analysis and Presentation

Data collected was analyzed using descriptive statistics and content analysis to determine agreements and disagreements on the key issues raised in the questionnaire. Although the author intended to analyze 30 questionnaires, she ended up analyzing only 25 because of the 30 distributed only 25 were filled and returned. 5 of these were not adequately filled and therefore not used in the analysis.

CHAPTER 4

4.0 DATA ANALYSIS AND RESULTS

4.1 Introduction

The presentation in this chapter begins with the demographic information of the Associations surveyed in general followed by that of the actual respondents.

Only 25 questionnaires out of the 30 distributed were returned and of these, 5 were spoilt. This reduced the sample size to 20 as seen on the following analyses.

4.2 Demographic characteristics for the Associations

The characteristics of the Associations that were considered important for the study included: the year of establishment, years of experience in the craft industry in general, number of years exporting crafts, work descriptions of the associations, gender and e-mail address distribution. The latter would influence the researches appreciation of extent of Internet usage by this industry.

Table 4.2.1 Year of Establishment

Year of Establishment	Number of Associations	Proportion of Associations (%)
Before 1984	2	10
1985-1988	2	10
1989 to 1992	6	30
1993 to 1996	7	35
1997 to 2000	3	15
2001 to date	0	0
Total	20	100

Source: Field Survey – interviews

Table 4.2.1. shows the distribution of the year of establishment for the respondent Associations. Almost half of the Associations under the study were established prior to 1992 and the other half between 1993 and the year 2000. Kenyan entrepreneurs achieved both within an 8-year span, which could indicate an 8-year cycle for growth and/or uptake of crafts as a business. The periods before 1984 and that between 1985 and 1988 recorded the lowest number of Associations established being only 8% each. No new associations were established from 2001 to date.

The results therefore show that the peak period for the establishment of craft companies being referred to as Associations according to AMEGA was between 1993 and 1996. This period was closely followed by that between 1989 and 1992. This is round about the same time that the first ISP in Kenya, Africaonline was established and thus the beginning of the Internet era in Kenya and for the SMEs in this research.

Table 4.2.2 Craft Industry Experience in years

Years of experience	No. Of responses	Proportion of association (%)
0-5 years	8	40
6-10years	9	45
11+ yrs	3	15
Total	20	100

Source: Field Survey – interviews

Table 4.2.2 presents the respondents' experience in years in the craft industry in general. Experience indicates a likelihood of opening more markets through referrals and getting insight into other forms of communication like the Internet. In the study, the majority of associations fall within the 6-10 year experience range. They were 9 representing 45% of all respondents. The 0-5 year range closely followed this group at 40%. The study showed that only 15% of the respondents have been in the industry longer than 11 years.

Table 4.2.3 Work description of Associations

Work description	Complement of people	Proportion of association (%)
Artisans	20	22.5
Designers	20	22.5
Sales People	17	19.1
Marketing	12	13.4
Administration	20	22.5
Total	89	100

Source: Field Survey – interviews

In table 4.2.4, respondents were asked to indicate the type of people employed by each association. The most employed categories were the artisans, designers and administration staff at 22.5% each of total employees. Sales people were a close second constituting 19.1%. These are the ones mostly seen manning stands at exhibitions or in the shops. The marketing

function however seems under represented compared to the others at 13.4% considering it is indeed an important function if the Internet route is to be taken. Products need to be exposed to create awareness so there is need advertising, which is a marketing function.

Table 4.2.4 Gender of the respondents

Gender of Respondent	No. Of responses	Proportion of association (%)
Male	6	30
Female	14	70
Total	20	100

Source: Field Survey – interviews

Table 4.2.4 representing the gender balance within the craft exporting business shows that the sector is dominated by females. 70% of respondents interviewed were female, the majority of who were owners. Men in this industry tend to be risk averse while the females are risk takers hence the above results.

Table 4.2.5 Distribution of E-mail addresses

E-mail Addresses	No. of Associations	Proportion of Associations (%)
Associations with 1 address	13	65
Associations with 2 addresses	2	10
Associations with 3 addresses	1	5
Associations with no address	4	20
Total	20	100

Source: Field Survey – interviews

Table 4.2.5. represents the number of Associations with E-mail addresses. 65% of the Associations have at least one address. 20% of the Associations do not have e-mail addresses at all while 5% have three (3) addresses. 10% of

the respondents were found to have 2 e-mail addresses. This will be significant in the trading process where overseas clients are more inclined to the electronic buying of crafts rather than the manual fax mode and will thus prompt more and more internet based communications with the supplying Associations.

4.3 Current Practices

The study found that all the Associations that were interviewed are already exporters of crafts to various overseas markets. They also sell their crafts locally to the tourist community as well as local interested persons though in less volumes compared to the export market. Most of the Associations were already exporting before the formation of AMEGA in 1998.

This section will show findings of current marketing practices, which include both the Internet and non-internet environments. The findings show the extent to which members of AMEGA interviewed are using the Internet for marketing and selling of craft products. It also shows the responses coming from computer owners versus those using cyber cafés for Internet access. The findings detail the perception by this industry, of the Internet as a medium for conducting their business activities and thus answer our research question.

It is important to tabulate the different countries to which the respondents are exporting to gauge the market penetration rate and identify countries with the potential of being targeted for further business.

The Associations interviewed have been exporting to Europe the United Kingdom (UK) and the United States of America (USA) since 1992. Their years of exporting range from five to 10 years. Most of the members started exporting to the above countries even before the inception of AMEGA in 1998. Only four (4) Associations began exporting after becoming members

of AMEGA. This indicates that craft exports have been ongoing over the years in Kenya.

The table below shows the popular overseas destination for the Kenyan crafts being exported:

Table 4.3.1 Export destinations for Kenyan Crafts

Name of Country	No. of Associations exporting to	% of total
Asia	1	1.5
Belgium	1	1.5
Canada	1	1.5
France	9	13.9
Germany	10	15.4
Italy	6	9.2
Japan	3	4.6
Portugal	9	13.9
Netherlands	3	4.6
United Kingdom (UK)	3	4.6
Scandinavian countries	1	1.5
South America	1	1.5
United States of America (USA)	15	23.1
None	2	3.1
Total	65	100

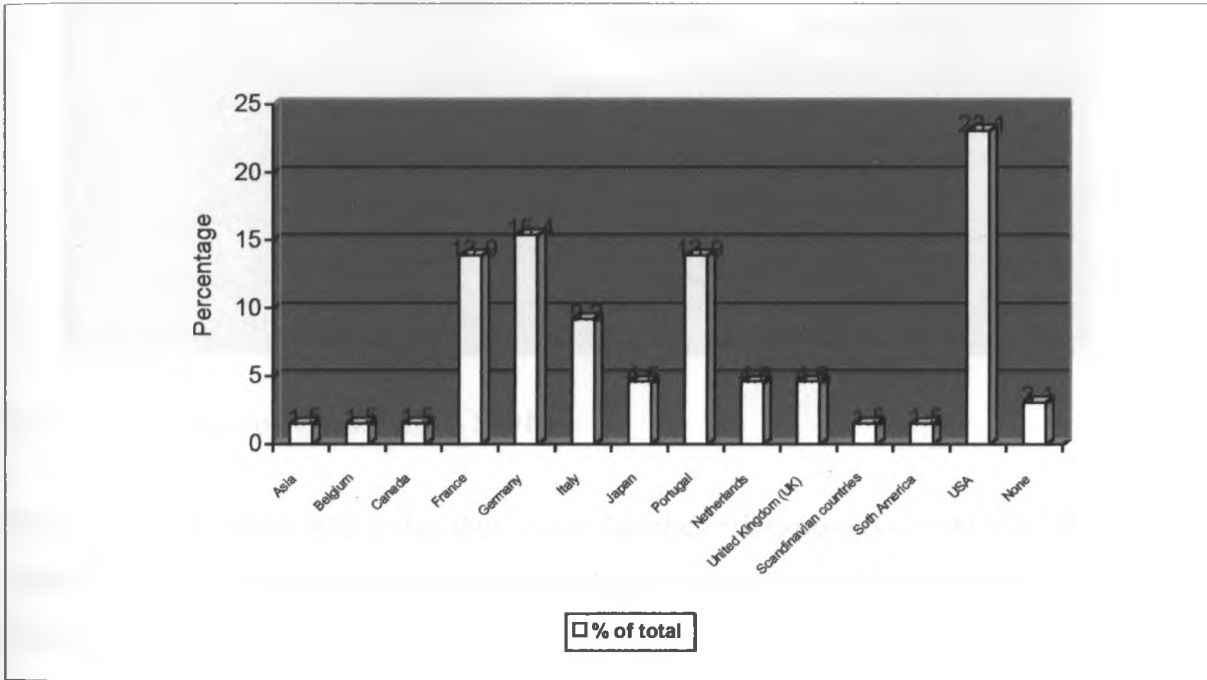
Source: Field Survey – interviews

According to the study, as tabled in table 4.3.1, the United States of America, with 23.1% of export orders is by far the most common export destination for Kenyan crafts. Germany, France and Portugal follow as popular export markets with 15.4%, 13.9% and 13.9% respectively.

These 4 constitute the more lucrative markets for the craft industry. They are equally easily accessible by air for exhibitions too which ties in with the finding that exhibitions remain the most common marketing platform for this sector. These countries are also the most likely to endorse Internet usage as

a means of placing their orders and communicating with the supplying Associations. This makes the focus of this study more valuable for the Kenyan craft industry. It is easy therefore to link these countries with a high usage of Internet technology (see fig.1.4) to get information and thus buying the craft items. It can only therefore be concluded that it is only a matter of time before the internet becomes the more dominant mode of business communication by all SMEs with their clientele in the developed world.

Figure 1.2 Export Destinations for Kenyan Craft



The same information in table 4.3.1 has been represented graphically in fig.1.2 giving the same results about the USA and Western European countries as the main export destinations for Kenyan crafts.

Fig. 1.3 shows the worldwide distribution of Internet users and clearly the same countries identified in the research as the best markets come up as being the ones with more Internet savvy populations.

Figure 1.3 Internet users worldwide

World Wide Total: 120.54 Million



Source: US Dept of Commerce (1998)

The distribution on the map above thus shows that the craft exporters should indeed target the countries with dense populations of Internet users in order to increase their reach via the Internet.

Table 4.3.2 Volume of export business versus local business

Volume of business	No. Of responses	Proportion of Associations (%)
>25%	4	20
26 –40%	5	25
41 –60%	9	45
61 –80%	2	10
Total	20	100

Source: Field Survey – interviews

Table 4.3.2 shows that exports are these Associations' core business and revenue earner compared to the % of domestic business. Most of the respondents fell within the 41-60% exports category, which makes up almost half of the exporters in AMEGA at 45%. The other 45% comes from the 26-40% export business category and the below 25% category combined. 10% of Associations interviewed are the serious exporters at the top range with 61-80% export business.

Figure 1.4 Volume of Export Business

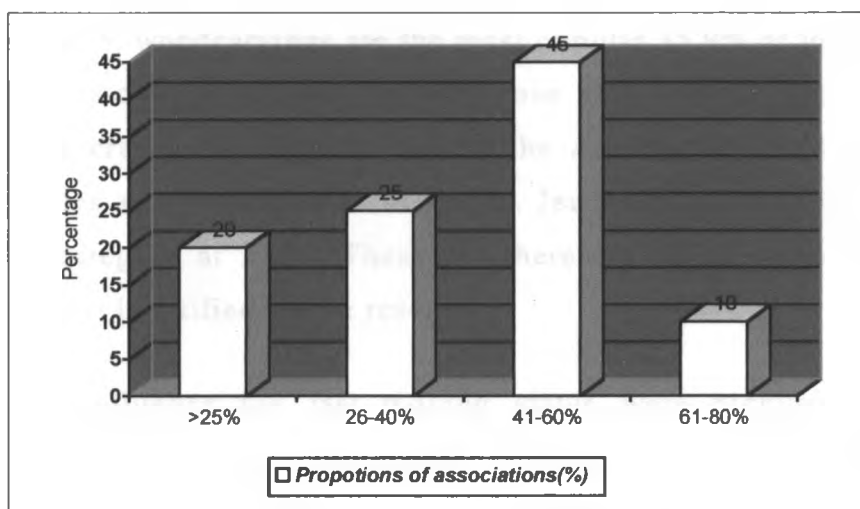


Fig. 1.4 is a graphical representation showing the distribution of volume of export business versus domestic. Clearly the bulk of exporters fall within the 41-60% export business category.

The product categories that are exported include woodcarvings, basketry, soapstone, jewellery and beadwork, African Textiles and batiks among others. Of these items some were found to be very popular with the export market and the findings are tabled below.

Table 4.3.3 Fast moving Product categories

Product Category	No. Of Responses	Proportion of associations (%)
Woodcarvings	14	35.9
Soapstone	12	30.7
Basketry	6	15.4
African Textiles and Batiks	4	10.3
Jewellery and beadwork	1	2.6
Missing answers	2	5.1
Total	39	100

Source: Field Survey – interviews

Table 4.3.3 represents the fast moving craft items currently in the export market. Of the 5, woodcarvings are the most popular 35.9% of total exported categories. It is closely followed by soapstone at 30.7%. Basketry is the 3rd most popular craft category exported by the Associations at 15.4% while African textiles and batiks are 4th at 10.3%. Jewellery and beadwork are the 5th popular category at 2.6%. These are therefore the “fast moving” craft items for export identified by the research.

Factors that influence the fast moving status were highlighted by the respondents as including uniqueness of the products, design which encompasses aspects of style, aesthetics, colour and utility value. Other factors were itemized were price, which is one of the marketing mix components and an important factor in influencing buyer decision to buy the categories of products already mentioned.

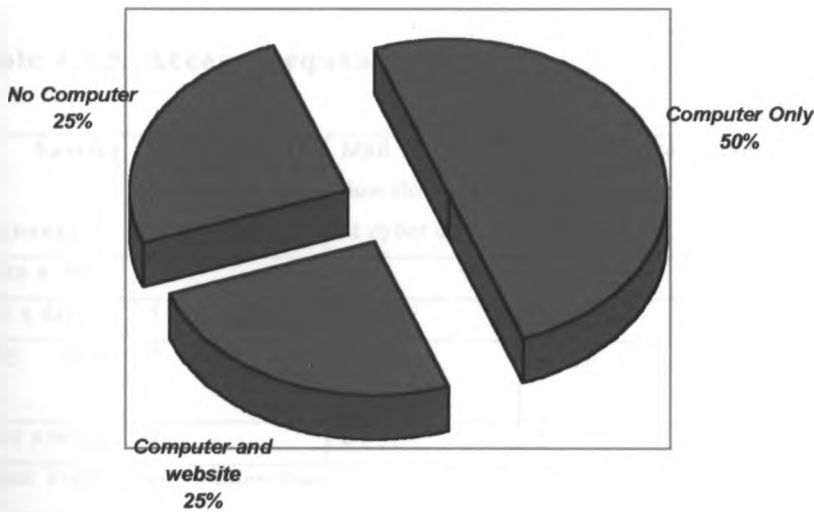
Public relations and marketing were also itemized as being a factor influencing the fast moving status and fads as well. These last 2 factors are closely related in terms of marketing in facilitating awareness creation of the product categories while selling them at the same time. This of course depends on the marketing and Public Relations pitch where a fad can then be easily created after the target market has been enticed into buying the most

promoted products. This would have the effect of boosting sales of the most prominent categories hence the fad status but it should be noted that this is seasonal and a short term strategy. This points to the internet as a useful medium to get this aspect off the ground and influence even more products to be sold.

In terms of computer ownership, the study showed that 75% of the respondents do own computers. Of the 75%, 25 % have their own websites thus forming the category computer and website owners above. 25% do not own computers in their businesses although they do have e-mail addresses for business communication.

A graphical representation of ownership status follows.

Fig 1.5 Computer & Website Ownership



The pie chart reflects that most of the craft exporters do use IT technology for various services, which may or may not include Internet services. This in itself is an important prerequisite for e-business success in that most of the information on export orders and products is stored electronically. This will therefore make it easier for these Associations to communicate the same

information electronically to targeted recipients and thus move into e-business practices.

Table 4.3.4 Internet access methods

Method	Computer and website owners	Respondents with no computer	Proportion of associations (%)
ISP	13	0	65
Cyber café	2	4	30
None	0	1	5

Source: Field Survey – interviews

Table 4.3.4 shows the different Internet access methods that are used by both computer owners and non-computer owners. 65% of the respondents have Internet access through Internet service providers (ISPs) while 35% of the total use cyber cafés. Only 5% have no access to both ISP and cyber café connection.

Table 4.3.5 Access frequency

Service Frequency	Mail down loading own computer	Mail downloading at cyber café	Own website	Surfing with own computer	Surfing at cyber café
<Once a day	2	0	0	0	0
Once a day	5	0	1	2	0
Every other day	7	2	1	8	1
Twice a week	1	2	3	3	3

Source: Field Survey – interviews

Having looked at Internet access methods, it is imperative that frequency and type of service be considered to gauge the extent of usage of this technology in the craft industry business processes. Table 4.3.5 represents the Internet services that are used by the respondents, which are e-mail downloading, checking and updating owner websites and surfing the Internet for competitive information.

The results show that almost 50% of the respondents access their mail and surf the Internet every other day, and this is true for both respondents owning computers and those using the cyber cafés. Access every day is more common for mail downloading only by those respondents that own computers.

The study also shows that website owners do not check their sites that frequently. 60% check their sites twice a week. The reason for this could be the fact that interested visitors to the website do invoke e-mail orders and therefore the ordering process continues regardless of the site checking activity. It is more likely that the website brings in the contacts for future follow ups and gives the owner a chance to display their wares to an unlimited audience.

Table 4.3.6 Importance of the Internet for e-business

Factors (The Internet allows)	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Opening new markets	16	3	1	0	0
Easier communication	17	2	1	0	0
Website benefits *	12	8	0	0	0
Displaying products	14	6	0	0	0
Cheaper access	12	8	0	0	0
Bringing in of more customers	6	14	0	0	0
Copying of Designs	6	13	1	0	0
No contact with customer	0	0	2	18	0
Competition based on mind and price games	0	12	6	2	0

Source: Field Survey – interviews

* List of website benefits include wider reach to an unlimited audience, opportunity to market on the site through e-advertising, getting contacts of visitors to the site and others.

Table 4.3.6 represents the factors that make the Internet a strong proposition for e-business for the craft industry. Previous tables have shown that 5 product categories are indeed popular in the export market, showing the export potential of this sector. The influencing factors therefore for the uptake of the Internet as a mode of business communication include the opening up of new markets among many others shown in the table.

95% of respondents interviewed considered opening up of new markets, easier communication and ability to display pictures of products to potential clients as a very strong to strong influencer. The factor of cheapness also was agreed to by the same respondent audience. None of the respondents disagreed to these factors, which builds a case for use of the Internet for e-business.

Other important factors which the respondents agreed to as influencing e-business practices include copying of designs off the website. 90% of the respondents agreed to the statement bringing in more customers and that designs can be copied off the internet too.

90% of the respondents disagreed with the factor that using the internet for communication makes the business transaction impersonal as there is no physical or direct contact with the customer but more a “cyber” client relationship. This shows that the Internet is being endorsed as a business communication tool that should be used.

60% of the respondents viewed the internet as a way of bringing in unreasonable competition based on price games and even mind games to lure customers because the internet is equivalent to “no-man’s land” with no real rules or regulations.

Table 4.3.7 Factors hindering uptake of the Internet as a business tool

Ranking	Extremely important	Somewhat important	Neither Important	Fairly Important	Not Important
Expensive to own a computer	6	5	0	0	3
High cost of using cybercafe services	5	8	0	1	1
Unreliable communication infrastructure lines dropping	4	0	2	8	1
Lack of exposure to the internet & its benefits	0	0	6	5	4
Lack of internet skills and knowledge	0	2	5	1	6

Source: Field Survey - interviews

N.B This question was specifically targeted at computer owners therefore the respondents were 15 in this case.

Table 4.3.7 represents the ranking of factors perceived as hindering the uptake of Internet technology by this sector. The study found that the aspect of owning a computer by individual Associations was the most important factor influencing the lack of use by the majority of craft makers. Those with no computers tend to resort to the traditional method of the fax which is still acceptable and is probably preferred as legal documentation supporting an order.

The 2nd most important factor that the study identified as hindering the rapid uptake of the Internet was the high cost of cyber café services. This goes hand in hand with the 1st factor because those Associations that do not own

computers use cyber cafés to access their e-mail. This therefore influences the frequency of using these services.

Unreliable communication infrastructure was cited as the 3rd factor hindering fast uptake of the Internet as business communication medium. The problem is mainly caused by slow Internet access speeds in Kenya as well as the frequency of line dropping. Line dropping is caused by electricity fluctuations from the power stations, which are characteristic of the Nairobi landscape. This is quite common in most other developing countries as well and is therefore not unique to Kenya.

Lack of exposure to the Internet benefits and lack of Internet skills were ranked 4th and 5th respectively. This only calls for more training and awareness campaigns and workshops to sensitize the SMEs in general on the modern ways of conducting business with their targeted markets.

4.4 Internet Orders

This section was intended to capture some quantitative information on orders but the respondents were reluctant to divulge specific information.

It is important to note that it is common for website enquiries to be communicated via e-mail. 50% of the respondents were found to be receiving between 10 and 20 enquiries on e-mail per month. These were mainly website owners which go to show that there is merit in having a website to showcase an Association's products.

The ideal situation is for these enquiries to be converted into orders. The e-mail invoked enquiries were found to yield less than 25% of actual orders for 65% of the respondents which would cause one to conclude that it may not be worth doing business in this manner. However note should be taken that 50% of these respondents are just computer owners with no websites of their own.

Had the actual order values been available the results could have confirmed conclusively that more than 50% of the e-mail enquiries are converted into orders. There was equally no conclusive data on number of hits to websites per month and the respondents were too few to justify documenting any statistics.

Finally to just confirm that the Internet is indeed becoming a preferred medium for communication between buyers and sellers and business partners, 100 % of the respondents indicated they preferred to communicate electronically. The 2 channels used and available for this being e-mail and web site interaction.

CHAPTER 5

5.0 CONCLUSIONS AND SUGGESTIONS FOR FURTHER RESEARCH

5.1 Introduction

E-mail is not yet overtaking the fax as the easiest and most convenient method of business communication between overseas clients and their supplies in 3rd world countries. The reason being as found in this study that the uptake of internet services particularly by the SME sector, has not yet reached the levels where more export business is generated from bi-directional electronic communication.

There is still a heavy reliance on traditional methods of reaching wider markets through exhibitions, referrals, and repeat business and to some extent tourist activity. The study however proved that there is scope for improved business for SMEs in the craft industry by adopting e-business practices. This is because their products are in demand in specific markets of the USA, Western Europe and emerging markets like Japan and Asia/Pacific should not be ignored in the export equation for this sector.

Developed countries are already miles ahead of Africa in using Internet technologies for business transactions and communication. Being the target market for the craft exporters, there is more compelling reasons why these local exporters should seriously engage in the use of the internet to reach their customers who are spread all over the world.

The study focused on the current business practices to gain entry into the wider world market by Nairobi-based members of AMEGA, a unique group of

craft exporters. By exploring their way of doing business with overseas clients, this gave the researcher insight into the extent to which they are using the Internet as a medium of conducting their business with their clients.

This case study sought to establish the influencing factors for the uptake of e-business practices by this small group and how they are using the Internet to get more orders. The research was therefore undertaken to answer the question to what extent the Internet is being used for e-business practices by the craft industry and identifying the influencing factors in the use of the internet by the sample population.

Analysis of the data in line with the research objectives revealed the following:

- a. All the Associations interviewed are already in the export business with regular customers in various countries of the world.
- b. The most popular overseas destination for Kenyan crafts is the USA followed by Western European countries like Germany, France and Portugal. Portugal was a surprising high demand country for these products at 13.9% of total countries exported to.
- c. The volume of export business versus domestic business was found to be 55% of all the business done by AMEGA members, which makes the export market a lucrative direction to follow. 45% of respondents do business of between 41-60% in the export market and 10% between 61 and 80%. This signifies the magnitude of export returns versus domestic consumption. This means that AMEGA's core business in the final analysis is export oriented and thus strategies to catalyze this should be looked into.

d. Five (5) product categories were identified as being popular with overseas buyers. There were woodcarvings, soapstone, basketry, African textiles and batiks, as well as jewellery and beadwork. This was found to be influenced by the uniqueness of the products along with aspects of design, price, PR and marketing as well as fads.

e. Ninety (90%) of the respondents preferred using e-mail and website interaction as the mode of business communication with their overseas clients whom they export to. The reverse was also true where the clients prefer to use these Internet technologies in placing their orders.

f. Fifty (50%) of respondents were found to access their e-mail every other day which is frequent enough for the current volume of business that is being generated from e-mail orders which was found to be between 26 and 50% of email enquiries converted to orders.

g. Several factors were identified as being important for e-business. The most important were opening new markets, easier communication, website benefits of displaying products to a wider audience 24 hours a day and cheaper access to the Internet.

h. The factors that were found to be extremely important in the hindering of the uptake of the Internet as a business tool were the cost of owning a computer, the high cost of cyber café services and the unreliability of the physical Telkom Kenya communication infrastructure.

i. Website statistics show that the more visitors browse the website, the more e-mail enquiries there are and therefore the more orders placed electronically.

5.2 Conclusions

The craft exporters within AMEGA have all the necessary prerequisites for success in the export market using the internet platform as a medium for business communication. This is in line with their overall strategy to reach a wider audience, that is the global market and help them to achieve their ultimate goal of opening wider markets for their products.

It can therefore be concluded that:

- a. With 75% of the respondents being computer owners and 90% already in possession of e-mail addresses the practice of communicating electronically has already been instilled in the Associations. This means that some form of e-business is taking place though not at its full potential as only 25% are website owners. This is the business to consumer e-business model.
- b. A wider market for the craft products that are popular can be reached using the Internet as a communication medium because the countries currently being exported to are already Internet savvy. Therefore there is room to tap into other heavy Internet usage countries as indicated on the map in fig 1.3 particularly the emerging markets like Japan and probably the Asia/Pacific rim.
- c. The most important influencing factors identified as impacting current e-business practices by this sector include the cost of owning the computer infrastructure required to have internet services. This includes the lack of fast bandwidth for Internet access due to constraints with the physical telephone infrastructure for one and the charges levied by cyber cafés for access. Others are documented in the findings.

The study therefore shows and confirms that the Internet is indeed a strategic tool for business communication.

5.3 Limitations

1. There were serious limitations to this research in that the majority of respondents who are members of the population under study were address less. This was due to their informal nature, which meant they could not all be reached. This also means that only a limited number of questionnaires were distributed and actual interviews conducted. The drop and go method did not work and numerous follow-ups had to be made.
2. There was a serious wastage of time on the part of the research assistants not finding the stall/shop owners and having to make several return trips in order to get interviews. Also very little time was allocated by the respondents to answer all the questions which in 5 cases resulted in missing answers.
3. It was not very easy to get the right specification of research assistants, which resulted in 2 false starts.
4. The literature review was limited because there was not enough background information on the subject matter. Also, the bulk of the information on e-business is Internet based which is expensive to download. Internet references may not be readily acceptable as authentic references.
5. The area of e-business itself is still very new in the developing world and thus calls for more studies in this area.

6. Other external factors like respondents refusing to divulge sensitive information on orders were beyond the researcher's control.

5.4 Suggestions for Further research

Several issues came to light that suggest that the research could be extended.

1. The Internet is dynamic in itself and must be causing dynamic responses by organizations to remain in business. What are practices are being employed in deploying the Internet strategically?
2. The relationship between demographic factors and speed of uptake to Internet technologies.
3. The extent of the impacts on the actual consideration and failure to consider the Internet as a new way of conducting business communication.
4. The SME sector being the largest employer in the country surely warrants further study to maximize outputs and returns to the majority of people in the country.

Appendix 1

QUESTIONNAIRE

SECTION I - GENERAL INFORMATION

Title of the respondent:.....

1. Name of Association/Company.....

.....

2. Year established.....

3. How long have you been dealing with crafts, even prior to joining AMEGA? (Tick)

0-5yrs [] 6-10yrs [] 11+ yrs []

4. State the number of Directors.....

5. State the number of employees.....

6. Tick the categories of employees involved in the business

[] Artisans [] Sales people [] Marketing [] Administration

[] Other (please specify)

.....

7. Business Location.....

.....

8. E-mail address

9. Do you have a website? Yes [] No []

10. If yes what is the address?.....

11. Do you transact any business on your website? Yes [] No []

12. If yes tick the appropriate business activity.

[] Buying [] Selling [] Enquiries Only [] Invoke E-mail orders

SECTION II: CURRENT MARKETING PRACTICES

1. Is the firm actively involved in exporting? Yes [] No []

2. If no why?.....

.....

.....

3. If yes, which countries do you export to?

.....

4. When did you start the export business (state year).....

5. Do you also sell your craft items locally? Yes [] No []

6. If yes what volume of your business is export versus local? (please tick as appropriate)

[] > 25%

[] 26-40%

[] 41-60%

[] 61-80%

7. What are the product categories exported? (Rank from 1-5 where 1= the most exported up to the 5th most exported).

[] wood carvings

[] ceramics

[] jewellery and beadwork

[] basketry

[] pottery

[] leather

[] African textiles and batiks

furniture

Other (specify).....

8. Which would you say are the fast movers and popular with overseas buyers?

9. What do you think influence the “fast moving” or “popular” status ranking from 1-5?

(1=least important, 5=most important)

uniqueness

price (includes shipping costs)

design/look/image

fad

delivery and short lead time

PR/marketing

Other (specify).....

10. How do you get clients from overseas markets?

Participation at exhibitions

Tourist community visiting Nairobi

Referrals

CBIK website

Own Website

Other (specify).....

11. What is the client's preferred mode of communication on orders?

Telephone Fax E-mail

12. What is your preferred mode of communication on orders?

Telephone Fax E-mail

13. Of the above which is the most common and why?.....

.....

.....

Do you think a website would enhance your current marketing practices?

Yes No

14. If yes, list three (3) reasons why

i.

ii.

iii.

15. What do you perceive as the disadvantages of marketing through a website?.....

.....

.....

16. Rate the level of importance to which you attach the following as affecting the use the internet for marketing. (Rank your answers from 1-5)

5 - Extremely important

4 - Somewhat important

3 - Neither important nor unimportant

2 Fairly important

1 Not important at all

Expensive to own a computer

1 [] 2 [] 3 [] 4 [] 5 []

High cost of using cyber café services

1 [] 2 [] 3 [] 4 [] 5 []

Unreliable communication infrastructure lines dropping etc

1 [] 2 [] 3 [] 4 [] 5 []

Lack of exposure to the internet and its benefits

1 [] 2 [] 3 [] 4 [] 5 []

Lack of internet skills and knowledge

1 [] 2 [] 3 [] 4 [] 5 []

SECTION III: INTERNET AWARENESS.ACCESS AND USAGE

1. Does the company have a computer? Yes [] No []

2. If yes what is it used for? (Tick where appropriate)

[] Typing correspondence

[] Data storage

[] E-mail

[] Internet

[] Fax

3. Do you have access to the Internet? Yes [] No []

4. If yes how? [] ISP connection [] Cybercafe

5. How often do you do the following? (Tick appropriate)

	<u>Mail downloading</u>	<u>Check your website</u>	<u>Surf other sites</u>
> once a day	[]	[]	[]
Once a day	[]	[]	[]
Every other day	[]	[]	[]
Twice a week	[]	[]	[]

6. Indicate with a tick in the appropriate space [] the extent to which you agree with the following statements:-

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
i. The Internet will help open new markets for my business.	[]	[]	[]	[]	[]
ii. The Internet makes communication easier	[]	[]	[]	[]	[]
iii. A website will be beneficial to my business	[]	[]	[]	[]	[]
iv. I can display my products to a wider audience	[]	[]	[]	[]	[]
v. Using a website will be cheaper for me to access potential clients	[]	[]	[]	[]	[]
vi. Web information can deliver more customers will little effort	[]	[]	[]	[]	[]
vii. The website will make people copy my designs	[]	[]	[]	[]	[]

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
viii. I do not trust the Internet. Want to deal with a person direct.	[]	[]	[]	[]	[]
ix. Competition will be reduced to mind and price games.	[]	[]	[]	[]	[]

SECTION IV OTHER

1. How many enquiries do you get by e-mail per month?.....
2. How many turn into orders? [] > 25% [] 26-50% [] 51%+
3. How many hits do you get on your site per month?.....
4. Do potential clients ask whether you have a website or not? Yes [] No []
5. Do potential clients spontaneously ask for your e-mail address? Yes [] No []

Appendix 2

AMEGA – KENYA MEMBERS (April 2002)

BUSINESS NAME	MAIN CATEGORY	CONTACT PERSON(S)	GENDER	TEL. NO.	BOX NO.
Amigos Tours and Handicrafts	Hardwood	Bridget Killu	F	882016 2532269	62043, Nbi
Akim Craft	Craft	Agnes Kisila	F	580925	42101 Nbi
Alica Art and Craft	Handicraft	Nelly Kamau	F	331272	61208 Nbi
Mezikat Exporters	Soapstone	Mercy Twerandu	F	557292	26511 Nbi
Migaka Africa Enterprises	Soft Wood	Milika Kahumbura	F	253269 243890	34925 Nbi
One Africa Shop	Soapstone	Emma Odour	F	603718	41693 Nbi
Shaneb Investment Co. Ltd	Soapstone	Mary Odhiambo Dosio	F	60646	52212 Nbi
Whanno Enterprises	Soft wood	Naomie Vuvi	F	786728 253269	9038 Nbi
Wiro Handicraft Enterprises	Handicraft	Rhoda Ogutu	F	542219	47207 Nbi
Wheila Enterprises	Soapstone	Monicah/Lilian Onunga	F	505093	42344 Nbi
Widugu Society	Turkana Baskets	Fredrick Masinde/Alice Musimbi	M	535944 / 443525	40417 Nbi
Wlasky Kenya Ltd		Francis Matu	M	717906	Nbi
Wungo Enterprises	Wood, Bone & Metal	William Okuoro Ong'ele	M	566196	6723 Nbi
Wumolu Authentic Crafts Ltd	Sisal Baskets & Mats	Susan Mwendwa	F	725366 727472	46274 Nbi
Wus Craft	Soapstone	James/Muthoni Njaga	M	30740/1	41812 Nbi
Wymill Handicraft	Soft and Hard Wood	Grace Yimbo	F	786596	70301 Nbi

BUSINESS NAME	MAIN CATEGORY	CONTACT PERSON(S)	GENDER	TEL. NO.	BOX NO.
Tunzos	Ethnic Crafts Antiques	Kamenju J. Waweru	M	0154-32071741165	61399 Nbi
East African Wildlife	Wildlife Stationary	Sarah Nthambi	F	574145	20110 Nbi
Chimma Enterprises	Maasai Crafts & Beads	Anne/George Khasiani	F	607988	52648 Nbi
Precious Heritage	Bone and Wood	Terry Onyango	F	715937	48846 Nbi
Level One Women Group	African Textiles/Musical Instrument	Kate Karuku	F	247360252334	56360 Nbi
Enjemson Art and Craft	Handicraft	Christiana Attere	F	581828732679	29793 Nbi
Nkistel Investments	Soapstone	Stella Nkirote	F	761569	11811 Nbi
Nyaudo Fashion House	Soft wood	Monicah Amolo	F	243028796540	16197 Nbi
Kisero Enterprises	Soapstone	Nora Achola Agik	F	217570713930	8436 Nbi
Cwapo Enterprises	Handicraft	Peres Ochola	F	782596	62606 Nbi
Ndiki Crafts	Woodcarving	Eunice Kaesa/John Kamau	F	761418248257	54972 Nbi
Bemos Craft Developers	Softwood/Bone	Ben Omondi	M	573068	63088 Nbi
Ethnokraft Africa	Handicraft	Rachel Mbogo	F	442956	9360 Nbi
Pijo Crafts	Handicraft	Joyce Mbaika Nyange	F	011-434115	93782 Nbi
Joandu Supplies	Soapstone	Joseph/Joan Ndururu	M	802386	35012 Nbi
Donwell Overseas Ltd	Exotic Leather	Kibaki Muriithi	M	442452/5	39695 Nbi

Gikai Investment	Soapstone	Eunice Kamotho/James Mwai	F	581515 520324	55650 Nbi
Lluddie's Exims Services Agency	Soapstone Hardwood	Luddy Adhiambo	F	606088	21646 Nbi
Thibaru Supplies	Wood	Grace/James Mugambi	F	544675 765674	49776 Nbi
Bemeux Crafts	Handicraft	Betty Mgassa	F		
Maika Agencies	Soapstone	Charity/Joseph Maingi	F	862177	9581 Nbi
Adega Creations	Softwood	Margaret Ogembo/Helen Oyoo	F	605122	56410 Nbi
Nyakana supplies	Basketry	Catherine Kananu	F	802746 0154- 32071	61399 Nbi
New Jua Kali Potteries	Pottery	Fabiano Lisembe	M	580214	
Stekawa Import & Export	Handicraft	Mary N. Kinui	F	0151- 21824	71599 Nbi
Gilo Tie Dye & Tailoring Boutique		Ann Warambo	F	212917	40055 Nbi
Kuriason Traders		Solomon/Mary Kuria	M	718077	29179 Nbi
Wilsa Kenya Ltd	Soapstone	Sarah/William N. Chege	F	558195 555237	72991 Nbi
Archies Supplies		Macharia Gacheru	M	571179	79584 Nbi
Omaka Enterprises		Muthoni Otwoma	F	716451 713440	46977 Nbi
Youth Education Network		Gertrude Mung'oma	F	719191 713958- Hse	2152 Nbi
Elsie's Investment		Elsie Muhanda	F	220370	50531 Nbi
Versalka Furniture		Maria Mbeda	F	582546	51004 Nbi

Gikai Investment	Soapstone	Eunice Kamotho/James Mwai	F	581515 520324	55650 Nbi
Lluddie's Exims Services Agency	Soapstone Hardwood	Luddy Adhiambo	F	606088	21646 Nbi
Thibaru Supplies	Wood	Grace/James Mugambi	F	544675 765674	49776 Nbi
Bemeux Crafts	Handicraft	Betty Mgassa	F		
Maika Agencies	Soapstone	Charity/Joseph Maingi	F	862177	9581 Nbi
Adega Creations	Softwood	Margaret Ogembo/Helen Oyoo	F	605122	56410 Nbi
Nyakana supplies	Basketry	Catherine Kananu	F	802746 0154- 32071	61399 Nbi
New Jua Kali Potteries	Pottery	Fabiano Lisembe	M	580214	
Stekawa Import & Export	Handicraft	Mary N. Kinui	F	0151- 21824	71599 Nbi
Gilo Tie Dye & Tailoring Boutique		Ann Warambo	F	212917	40055 Nbi
Kuriason Traders		Solomon/Mary Kuria	M	718077	29179 Nbi
Wilsa Kenya Ltd	Soapstone	Sarah/William N. Chege	F	558195 555237	72991 Nbi
Archies Supplies		Macharia Gacheru	M	571179	79584 Nbi
Omaka Enterprises		Muthoni Otwoma	F	716451 713440	46977 Nbi
Youth Education Network		Gertrude Mung'oma	F	719191 713958- Hse	2152 Nbi
Elsie's Investment		Elsie Muhanda	F	220370	50531 Nbi
Versalka Furniture		Maria Mbeda	F	582546	51004 Nbi

St. Jude's Counselling Centre					
Zimak Products		Joyce Mangoka	F	503069	66910 Nbi
Tropical Craft Innovators	Softwood	Partick O. Okwara	M	221317	71125 Nbi
Kirera Ints		Grace Kirera	F	785063 783561	Nbi
Partners Crafts		Obed Mukola	M	766768	Nbi
Simon Karanja		Simon Karanja	M	248212	Nbi

Appendix 3

Letter of introduction to the Respondents.

Miranda Bakhuluma-Ncube,
University of Nairobi,
Faculty of Commerce,
P. O. Box 30197,
NAIROBI.

Dear Sir/Madam,

I am a student in the Faculty of Commerce of University of Nairobi. In partial fulfillment of the requirements of the Master of Business Administration (MBA), I am conducting a study entitled **E-BUSINESS PRACTICES BY SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN THE CRAFT INDUSTRY IN KENYA: THE CASE OF MEMBERS OF AMEGA IN NAIROBI**

Your association/company has been selected from the list of AMEGA members to form part of this study. To this end I kindly request for your assistance in completing this questionnaire. Any additional information you might feel necessary for this study is welcome.

The information and data required is needed for academic purposes only and will be treated in strict confidence.

Your cooperation will be highly appreciated.
Thank you.

Yours sincerely,

Miranda Bakhuluma-Ncube
MBA Student

J. Maalu
Supervisor

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