

**THE IMPACT OF GLOBALIZATION ON THE LEADING  
SMALL AND MEDIUM ENTERPRISES IN NAIROBI  
COUNTY IN KENYA**

**SAROPA MARY SEILA**

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## **DECLARATION**

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

**Signature:** -----

**Date:** -----

**SAROPA MARY SEILA**

**D61/68115/2011**

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

**Signature:** -----

**Date:** -----

**DR.JOHN YABS**

School of Business

University of Nairobi.

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I am indebted to a number of people who have supported me intellectually, morally and financially in the process of undertaking this project.

To God almighty for his goodness and never ending blessings

To my parents, Edward Saropa and Nancy Saropa who have been a great inspiration in my life, I thank you both for your financial support and your kind words of encouragement. I will forever be indebted to you for bringing me up to be a person who appreciates and values Education.

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Last but not least I would like to appreciate the small and medium enterprises in Nairobi County, for their support.

God bless you all

## **DEDICATION**

This work is dedicated to my Parents Mr. and Mrs. Saropa Kimenjo.

## ABSTRACT

The effect of globalization on small and medium enterprises (SMEs) has received a lot of attention in international circles in the past few years. One of the reasons for the international focus on SMEs is that these firms make significant contributions to the economy of both developing and developed countries. The theories reviewed were; resource based theory and traditional foreign direct investment theory. The specific objectives of this study were to establish whether SMEs globalization lead to greater employment opportunities and reduce poverty level generally, identify factors that hinder the ability of small-scale business in Nairobi County to be globally integrated and determine strategies to be adopted to facilitate the quick integration of small-scale firms in Kenya into the globalized economic world. Descriptive survey design was used. The target population of the study was the heads of department working in the Micro and Small Enterprises Authority (MSEA) and the top 100 SMEs in 2012 as surveyed by Business Daily and KPMG, with owners or managers as the respondents. Primary data was be used in the study. This was carried out by use of an interview guide. The results show that SMEs globalization has led to greater employment opportunities as a result of global competition, international policies have opened a free market for operation of SMEs all over the world and maximization of the human capital within the host communities. It was found that key challenges include; poor management competence, changes in modern technology, political interference, high competition in the market especially big/ foreign organizations, government's strict regulations and overseas trade tariffs and lack of entry of Kenyan SMEs in the Business process market hinders. To curb the challenge of access to financial resources, the study found that financial infrastructure needs to be broadened to ensure that there is inflow of credit for investments. Further, it was found that technology improvement that greatly opens opportunities to globalization should be emphasized. Another strategy found to be efficient was the development of a research and development department or campaign for SMEs.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Small and medium enterprises are the major agents of economic growth and employment. In Kenya, over sixty percent of small businesses are estimated to fail each year. This is according to a survey done by the Kenya National Bureau of Statistics (2009). In Kenya, the government established the Micro and Small Enterprise Authority (MSE Authority) which aims at mainstreaming the small businesses in the country. The creation of the Authority comes after more than 12 years of intense advocacy and Lobbying by various stakeholders led by Kenya Private Sector Alliance (KEPSA) and the Micro and Small Enterprises Business member organizations in Kenya (Kenya Law, 2011).

The effect of globalization on small and medium enterprises (SMEs) has received a lot of attention in international circles in the past few years. One of the reasons for the international focus on SMEs is that these firms make significant contributions to the economy of both developing and developed countries. SMEs contribute over 55 percent of GDP and over 65 percent of total employment in high-income countries (UNCTAD, 2004). In East Asia, SMEs are major players in the exporting industry, accounting for about 56 percent and 40 percent of exports in Taiwan and South Korea, respectively. Furthermore, in many developing countries, SMEs have been identified as making significant contributions to poverty reduction. This paper contributes to the international policy debate by examining the effect of globalization on the performance of SMEs in the United States (Mrak, 2010).

Gichira (2007) in his study sought to establish the challenges that globalization poses to one such organization and their effects on the business through a case study. He targeted the senior management staff of Kenya Airways Limited. 15 out of the targeted 17 members were interviewed, which was a response rate of 88%. The study findings indicate that the greatest challenges of globalization to an airline like Kenya Airways Limited are competition and rapid technological changes. The competitive force of global airlines originating from the developed world was described as forceful. In spite of the challenges brought about by globalization, 67% of the respondents described globalization as good for business. The remaining 33% described it as a threat to business. The researcher noted that none of the respondents described globalization as irrelevant to business.

Kagechu (2013) carried out a study to establish the strategies adopted by SMEs to cope with challenges of globalization. The design of this research was descriptive survey research. The target population of the study was 145 small and medium manufacturing companies in Nairobi. It was found that organization's factors that influenced the operations included political, economic, social, technological, economical and legal factors. From the findings, the study revealed that small and medium manufacturing companies responded to global business in SMEs sector as they have been pushed by increasing globalization, heavy competition, newly empowered customers in new markets and fast-changing technologies that has been requiring the companies to respond to global business in SMEs sector.

Theories that will address this study include resource based theory and traditional foreign direct investment theory. These theories are in tandem with the objectives of

the study as they support the concept of globalization which in the long run leads to superior long term growth and performance.

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

International orientation of enterprises is a basic concept in the description and analysis of globalization effects of business dynamics. Hitt, Ireland and Hoskisson (2011) describe globalization as the spread of economic innovation around the world and the political and cultural adjustments that accompany this diffusion. He further states that globalization refers to the increased integration across countries, of markets for goods, services and capital. The origins and impacts of globalization are contested. Many believe that this 21st century version of globalization is merely another round of cross-border exchanges that have occurred for centuries. These exchanges are represented by increased trade, travel and migration, and cultural exchange (Puplampu et. al., 2006)

Globalization has impacted SMEs in that it has changed the role of SMEs within domestic economies. Initially, SMEs were generally viewed as less efficient enterprises than their larger counterparts and conventional wisdom would have predicted that increased globalization would present a more hostile environment to small businesses. The additional costs of globalization that is fixed costs of learning about foreign environments, communicating at long distances, and negotiating with foreign governments would be a reason for expecting that engaging in foreign investment will be mainly an activity of large firms (Audretsch, 2009).

Lasserre (2013) mention that globalization creates overall wealth for all nations because specialization increases trade, reduces inflation due to cost efficiencies,

benefits customers because of price reduction owing to cost efficiencies, and the last argument in favor of globalization would be that there is a better allocation of natural, financial and human resources. However, as many scholars and other specialists have pointed out, there are strong arguments to be made against the effects of globalization, too.

However the major disadvantages of globalization imposes a huge strain on labor force both in developed countries and developing countries. Globalization would standardize customer tastes and reduce diversity. Globalization would bring about concentration of power in a few global MNCs. Globalization harms the environment because of massive exploitation of natural resource. It also reduces the capacity for nations to protect their national interests, cultures and values (Audretsch, 2009).

### **1.1.2 Small Medium Enterprises in Kenya**

There is no clear definition regarding small scale enterprises. However they are explained more by their features than by explicit definition. They may therefore be varying depending on different jurisdictions for example, in Britain, a small business is that with approximately 200 paid employees, whereas in Kenya, a small business is that with 10-49 employees, and a medium business is that with 50-99 employees. It is thus argued that the definition of small enterprises mainly is derived from enterprises being entities involved in an economic activity, irrespective of their status (Aficog, 2012). They are commonly known as registered businesses that contribute heavily to employment creation and gross domestic product, and they grow in ways linked to the formalization of an economy. Repeatedly, they face great difficulty accessing financial services in many emerging markets (IFC, 2011).

SMEs cut across all sectors of the economy, providing a prolific source of employment, income, and government revenue and poverty reduction. The sector comprises 98% of all businesses in the country, employs more than 4.6 million people (30%) and accounts for 18.4 % of the country's GDP (GOK, 2009). The Small enterprise sector or informal sector provided approximately 80% of total employment and contributed to over 92% of the new jobs created in 2010 according to the Economic Survey of 2011 (CMA, 2010). The sector provides goods and services; promotes competition, innovation and an enterprise culture and provides opportunities for the development of appropriate technological and managerial competencies. Since they dominate the business sector in Kenya, SMEs are an important factor in the context of poverty reduction as a source of income and employment especially for poor households (Africog, 2012).

It is observed that majority of all enterprises in the world range from small to medium scale enterprises. Certainly, small enterprises consist of firms which vary widely in size and characteristics namely from very small start-up firms of an infant stage of development to established enterprises listed in the capital markets. Capital Markets Authority statistical bulletin in Kenya finds that small and medium enterprises play an important role in the GDP of the country's economy. According to the government economic survey the sector contributed over 50 percent of new jobs created in the year 2005 (KPMG, 2011).

### **1.1.3 Globalization of Small Medium Enterprises**

SMEs seem less equipped to embrace opportunities presented while confronting challenges of globalization. Globalization offers SMEs opportunities to participate in

the regional and international markets while internationalization presents opportunity for growth and development beyond the local market. However globalized production by multinationals presents new threats in form of increased competition (Kaushalesh&Peedoly, 2006). Limited access to global markets denies SMEs significant opportunities confining them to saturated local markets whereas internationalization is necessary for their survival and expansion. Barriers that limit SME internationalization include limited information on foreign markets and technology, lack of managerial skills, limited knowledge, limited resources to finance exports, inefficient transactions and limited product and service quality to meet customer requirements (OECD, 2010).

In developing countries and countries in transition, their globalization performance can be measured by the level and the speed of their integration into the global economy. There are two factors that seem to be of crucial importance here. The first one is economic growth. The quota of developing countries that have integrated most quickly between the 1984-1993 periods grew nearly 3 percentage points than the slowest integrating quota. The second factor is the quality of the policies (World Bank, 2006).

Mrak (2010) supporting World Bank views says that for small-scale business global integration, governments need to change their role by establishing rules and characteristics that include openness, transparency and credibility in government action as well as the absence of bureaucratic interference, discretionary regulations and corruption. Introduction of these rules and characteristics would create an environment that is conducive for the efficient functioning of market forces that are



important for the development of the private sector. In addition, these would also reduce the perception of risk and thereby help to attract investment.

Lozi (2008) states that particularly in African countries, providing a sound investment climate for entrepreneurs not only yields important benefits in terms of economic performance but also strengthens their capacity to create new jobs and consequently, to help alleviate the social cost of structural reforms in the future. Small-scale industrialists should redefine their objectives and as well adopt effective resources utilization as necessary conditions for broadening the margin of maneuver for growth and for achieving sustainable development.

The ability of SMEs to survive in an increasingly competitive global environment is largely dependent upon their capacity to leverage information as a resource and to benefit from the value of information. SMEs need ready access to comprehensive relevant information since they operate in severe time and capacity constraints. They require information on business trends and markets; business environment, legal and regulatory aspects, business management, customer needs, business expansion and diversification; technology; business opportunities; linkages and business partnerships. (Schleberger, 2008) Limited access to opportune, current, relevant and adequate information is a notable constraint to SMEs in Kenya. The enterprises struggle to gain access to important information needed for improved productivity, customer satisfaction, improved cycle time and opportunities at the market place. (ITG, 2002 in Hanna, 2010) Market signals on business opportunities and customer trends are not communicated effectively to SMEs, who perform better in information rich environments (KIPPRA, 2006).

## **1.2 Research Problem**

The Kenya business landscape is characterized by many indigenous small-scale businesses which focus on local operations. Contemporary economic analysis shows that most developing nations apparently depend to a great extent on globalized activities and processes. This is to say that no country has developed successfully by turning its back to international market integration and long-term capital flows. Today, globalization is a major driver that has impact on nearly every business. The internationalization of markets for sales and purchasing at least indirectly influences every business (Alapiki, 2012).

The decision to globalize and to enter export markets needs the strong vision, commitment and determined leadership of the owners and managers. These people need to be convinced that this is a strategically important step for the businesses long-term development. This is necessary to overcome risks and problems, which accompany internationalization of a business. Moreover, going global requires a certain degree of international experience and knowledge within the organization. Studies by Abed (2013) examine globalization in Middle East and North Africa, Stiglitz (2012) also examined the impact of globalization on SMEs performance; a case of US companies. These two studies identified are within the same context but different scope as those of the current study. In Kenya majority of the studies that touch on SMEs are biased towards addressing the challenges and development of medium and small enterprises to meet economic needs (Bowen, Morara, & Mureithi, 2009; Gok 2008). Gichira (2007) carried out a study on implications of globalization on private hire vehicle companies in Nairobi, Hannah (2007) carried a

study on strategic responses to globalization by foreign commercial banks in Kenya focusing on a case of Barclays Bank.

The presence of limited interest in studying the relationship between globalization and small-scale business development in Kenya, may have resulted in problems such as; lack of operational government policies that encourage small-scale business firms to be globally focused, as well as to be exposed to sound ideas of globalization, inability to produce and provide needed quality goods and services to global market. These problems needed to be addressed in order to develop models that will assist in the integration of small-scale firms in Kenya into the global economic world. It is as a result of this gap that the study sought to answer the question; what are the impacts of globalization on leading small and medium scale businesses in Nairobi?

### **1.3 Research Objectives**

The objectives of the study were;

- i) Establish whether SMEs globalization leads to greater employment opportunities and reduce poverty level.
- ii) To examine the factors hindering SMEs global integration.
- iii) To establish the strategies that facilitate integration of SMEs into globalization

### **1.4 Value of Study**

This study would provide data that may help SMEs owner know other available options of acquiring fund and benefits for the company to joining the international market, for business growth and undertake appropriate measures necessary to ensure

success of the firm. The study hopes to benefit the Nairobi county government in developing policies that will guide the internationalization of SMEs and exploit the advantages and opportunities that come along with globalization.

The results of this study will also be used to assess the youth involvement in entrepreneurship and the same information can be used to provide support to the few interested youths with great business ideas in international business. This study will also benefit businesses owners who will learn how to position their operations in order to be globally focused and integrated. When businesses are globally integrated, they serve global market and make more profit. If profit accrues to business, they are able to carry out their social responsibilities to stakeholders, such as payment of dividends to owners, prompt payment of tax. Tax improves government revenue which contributes to an increase in national income. When business operates profitably, they create employment opportunities which increase the purchasing power of the society.

The study adds to the literature that is already there on SMEs, thus it can be used as a reference point for academicians and other researchers.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This section comprises of the theories that supports this study. In addition, this chapter provides the discussion of the empirical literature according to the objectives of the study.

#### **2.2 Theoretical Foundations of the Study**

This section contains review of theories relevant and which inform the theoretical background of the research subject matter. The theories reviewed are; resource based theory and traditional foreign direct investment theory

##### **2.2.1 Resource Based Theory**

This theory argues that firms possess resources enable firms to achieve competitive advantage and lead to superior long term performance. Valuable and rare resources can lead to the creation of competitive advantage. That advantage can be sustained over longer time periods to the extent that the firm is able to protect against resource limitation, transfer or substitution (Frawley&Fahy, 2006). Information system resources may take on many of the attributes of dynamic capabilities and may be useful to firms operating in rapidly changing environment. Information resources may not directly lead the firm to a position of superior sustained competitive advantage but they may be critical to the firm's long term competitiveness in unstable environments if they help it develop, add, integrate and release other key resources over time (Wade and Hulland, 2004).

Resources such as adequate finance and competent human resource are crucial for the effectiveness of globalization practices in a rapidly changing environment (Wade and Hulland, 2004). The dynamic capabilities which consist of the activities and mechanisms of managing resources in the creation of value may have an influence on the effectiveness and success of market entry strategies. It is expected that an organization that has adequate financial resources would have more effective/successful market entry strategies. This theory is relevant to the study as it explains how resources at a firm's disposal are a critical factor to consider before making a choice on market entry.

### **2.2.2 Traditional Foreign Direct Investment Theory**

This theory predicts that firms invest in foreign markets to exploit opportunities either market or scarce resource opportunities and knowledge. Firms that consider entering foreign markets have to cope with uncertainty of the economic and political conditions (Johanson&Vahlne, 1977).Firms may try to reduce this risk of uncertainty by emulating the decisions that were made by those firms among the first to go international. Research on foreign direct investment theory predicts that firms behave in the same manner although for different reasons. An attractive foreign market may entice a number of firms to engage in foreign direct investment.

Foreign direct investment (FDI) theories predict the scale and scope of enterprises operating in foreign markets. It does this by looking at the differences in the competitive advantage across firms or countries which may lead to the extension of corporate control across borders. Majority of FDI today is done through mergers and acquisition unlike old times when Greenfield investment was used more. Firms

looking in at acquisitions find the purchase prices flexible. The theory provides that direct ownership or investment mode of entry provides a high degree of control in the operations and the ability to better know the consumers and competitive environment. However it requires a high level of resources and a high degree of commitment (Albaum &Strandskov, 2008).

### **2.3 Review of Empirical Literature**

In United States of America, the distribution of Multi National Corporation in the industry in year 2003 was 36 % in manufacturing, 19 % in wholesale trade, 2 % in retail trade and less than 10 % in service industries. In contrast, the distribution for SMEs was 12 % in manufacturing, 2 % in wholesale, 20 % in retail trade and 40 % in service industries. This means that SMEs generally operate in less “globalized” industries, they may still experience the spill-over effects of globalization. The second observation is that the wage and employment effect of globalization may be more profound for SMEs than larger domestic firms due to their relatively smaller size. Finally, since SMEs are dominant in the services industry, the non-tradable services needed for production by MNCs are likely to be provided by SMEs suggesting that there are linkages between SMEs and MNCs (Lasserre, 2013).

Dasanayaka (2011) conducted a study pertaining to global challenges for SMEs in Sri Lanka and Pakistan in comparative perspectives and found that small and medium scale enterprises/industries (SMEs) function as a lifeline in informal sectors of Pakistan and Sri Lanka due to their immense contribution in areas such as employment generation, exports, equitable income distribution, social stability, efficient domestic resources usage and regional development. However, a large number of SMEs in both countries are struggling to survive in today's global

competitive market. Their sustainable growth is threatened by the impact and challenges of rapid globalization. Absence of any networking and cooperation among the SMEs and lack of linkages with large scale industries have aggravated these problems. In spite of the various policy reforms, establishment of SME related apex bodies, incentives and assistance offered by the national governments in both countries, SME sector has suffered in many fronts.

Lozi (2008) examined the role of small scale industry in the economic development of Jordan and found that growth of small scale industry in terms of employment, production and sales has increased due to globalization and domestic liberalization, but not as planned therefore, small scale industry should be encouraged to make a sustainable contribution in national income, employment and exports. Further, author suggested some recommendation for the development of this sector; establishment of government centers in all districts of Jordan to provide the needed services and facilities to small scale industry; specialized training centers; fostering technology development through either technology transfer or technological innovations or inter-firm linkages should be emphasized; through seminars and workshops at the local level; adequate inflow of credit; strong linkages between small and large scale industries; encourage to employ more Jordanians women. However, author identified marketing as one of the major problem of the small scale industries in Jordan.

Boojihawon (2006) argues that unlike the East-Asian and Latin American economies, globalization has brought few economic gains to Africa. Mytelka (2010) explains that unlike the Asian countries, African countries have been unable to improve their human and technological infrastructures, macro-economic policies and institutional frameworks. These factors have affected Africa's ability to attract foreign investment



as the global race intensified and becomes entrenched in the survival of the fittest philosophy.

Further studies by the likes of Dohlman and Halvorson-Quevedo (2010) and Arzeni and Pellegrin (2007) have demonstrated that there is a general lack of awareness by African businessmen about the possible gains and consequences of ongoing globalization, a difficulty in establishing partnerships and strategic alliances between local SMEs and Multinational Enterprises (MNEs), limited marketing and managerial capabilities and limited capacity to implement latest Information Communication Technology (ICT) applications. A few exceptions, however, have been countries like Botswana, Mauritius and South African where significant economic gains have been achieved despite the underlying deficiencies. These countries are, till date, the good examples of successful economic development in sub-Saharan Africa.

According to Hitt et.al. (2011) globalization encourages international integration, which has increased substantially during the last generation. In globalized market and industries, financial capital might be obtained in one national market and used to buy raw materials in another one. This integration of national economies has encouraged international business as sellers and buyers meet to exchange goods and services. According to Hittet. al. (2011), two main forces are spurring the globalization of markets and production- lower trade and investment barriers and increased innovation. Innovation in technology: as lower barriers to trade and investment encourage globalization, increased innovation is accelerating the process.

Awuah and Amal (2011) carried a study to discuss how globalization affects the competitiveness of small to medium sized enterprises and how these opportunities and

challenges can be handled. The results found were that firms' capabilities with regards to innovation, learning, and internationalization, which increase their competitiveness, are enhanced by institutional setups. The researchers however made a contribution that there is still so much debate on the impact of globalization on the competitiveness of firms, particularly SMEs, in LDCs. They however agree that globalization has brought considerable benefits to many actors worldwide.

Asiedu and Freeman (2006) studied the effects of globalization on the small and medium enterprises in United States. The researchers' measures of globalization capture two important aspects of globalization; international trade and foreign direct investment. They found that minority-owned businesses that operate in more globalized regions earn lower profits. In contrast, globalization has no significant effect on the profits of white-owned businesses. According to Asiedu and Freeman (2006) the effect of globalization on small and medium enterprises (SMEs) has received a lot of attention in international circles in the past few years. One of the reasons for the international focus on SMEs is that these firms make significant contributions to the economy of both developing and developed countries. SMEs contribute over 55 percent of GDP and over 65 percent of total employment in high-income countries (UNCTAD, 2004). In East Asia, SMEs are major players in the exporting industry, accounting for about 56 percent and 40 percent of exports in Taiwan and South Korea, respectively. Furthermore, in many developing countries, SMEs have been identified as making significant contributions to poverty reduction.

Lipsey (2011) points out that SMEs are largely concentrated in the services and retail industries and MNCs are generally concentrated in manufacturing and wholesale trade. The distribution of multinational companies in the U.S. by industry in 2003 was

36 % in manufacturing, 19 % in wholesale trade, 2 % in retail trade and less than 10 % in service industries. In contrast, the distribution for SMEs was 12 % in manufacturing, 2 % in wholesale, 20 % in retail trade and 40 % in service industries. The point is that, although SMEs generally operate in less “globalized” industries, they may still experience the spill-over effects of globalization. The second observation is that the wage and employment effect of globalization may be more profound for SMEs than larger domestic firms due to their relatively smaller size. Finally, since SMEs are dominant in the services industry, the non-tradable services needed for production by MNCs are likely to be provided by SMEs suggesting that there are linkages between SMEs and MNCs.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the methods that were used to collect, analyze and interpret data. It further provided information regarding the population of the study, sample size, sampling procedures, research instruments, data collection and data analysis techniques.

#### **3.2 Research Design**

This study adopted a descriptive survey design. This kind of design well suited the study as it presents the situation as it is and the researcher has no control over the variables. According to Kothari (2004) descriptive survey design includes surveys and fact finding enquiries of different kinds. The major purpose of descriptive research design is description of the facts as it exists at present.

#### **3.3 Population**

The target population of the study included the top 100 SMEs in 2012 as surveyed by Business Daily and KPMG, with owners or managers as the respondents, and Medium and Small Enterprises Authority managerial employees. These respondents were considered adequate as respondents since they were deemed to be in possession of the required information that best addresses the objectives of this study. Burns and Grove (2003) describe population as all the elements that meet the criteria for inclusion in a study. Population is therefore the entire group of individuals upon which a sample will be picked for survey. The units of analysis included Medium and Small Enterprises Authority and the SMEs in Nairobi County.

### 3.4 Sample Design

According to Polit and Beck (2003), a sample is a proportion of population to be researched while Kothari (2004) defines a sample as the selected respondent representing the population. The total population included top 100 SMEs, thus 50% of this population was used to derive the sample size. Mugenda and Mugenda (2003) supports that a sample size of 50% from its total population is appropriate, thus, SMEs selected for data collection will be 50 in number.

The targeted respondents for this particular group were the owners and managers of the SMEs. Simple random sampling was used to select the 50 SMEs. Further, two managerial employees from the finance, business development and entrepreneurship-training departments of MSEA were selected, thus a total of 6 respondents. Convenience sampling was used to select the heads of department from the MSEA.

Table 3.1 provides the sample size for the study.

**Table 3.1: Sample Size**

<b>Targeted Respondents</b>	<b>Sample Size</b>
Finance department - MSEA	2
Business development department - MSEA	2
Entrepreneurship –training department-MSEA	2
SME'S	50
<b>Total</b>	<b>56</b>

### **3.5 Data Collection**

This study used primary data which was collected through use of a questionnaire. Collecting data from SMEs owners or managers, questionnaires took the form of both closed and open ended questions. Closed ended questions used the likert scale. Likert scale is an interval scale that specifically uses five anchors of strongly disagrees, disagree, neutral, agree and strongly agree. The likert measures the level of agreement or disagreement. Likert scales are good in measuring perception, attitude, values and behavior (Mugenda& Mugenda, 2003, Upagade &Shende, 2012). Face to face interviews was employed for data collection from the management at MSEA because data collected from these respondents provided in depth analysis of globalization and its impacts.

Initially the researcher used self-introduction letters and informants on the SMEs that have been in operation for more than 3 years for data collection. The questionnaires were distributed by the research assistants to the respondents using the drop and pick method. The researcher made follow ups and the fully completed questionnaires were picked from the respondents later by use of research assistants.

Collecting data from the MSEA management team, the researcher personally made an appearance to the company to ask for permission to carry out the survey. This was followed by setting up of an appointment upon which the researcher will engage the targeted respondents through a face to face interview. The questionnaires and interview guide were accompanied by an introduction letter from the University.

### **3.6 Data Analysis**

Data Analysis is the processing of data to make meaningful information (Sounders, Lewis and Thornbill, 2009). Data collected through questionnaires, was prepared in readiness for analysis by editing, handling blank responses, coding, categorizing and keying into Statistical Package for Social Sciences (SPSS) computer software for analysis. SPSS was used to generate descriptive statistics. Descriptive statistics aided in producing results on means and frequencies of responses. Qualitative data gathered from the open ended questions was contently analyzed to provide results.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter analyzed the data and presented the results using tables. The section provides the descriptive statistics that is the mean scores and frequencies of the responses while the inferential statistics shows the final regression results of the study.

##### 4.1.1 The Response Rate

A successful response rate of 80 % (45 respondents out of possible 56) was obtained. Babbie (2004) asserted that returns of 50% and above are acceptable to analyze and publish. The high response rate was achieved because of the ease in assessing the target respondents as well as the follow up calls that were made in an effort to enhance the successful response rate. Results are presented in Table 4.1.

**Table 4.1: Response rate**

	<b>Response</b>	<b>% Response</b>
Successful	45	80%
Unsuccessful	11	20%
Total	<b>56</b>	100%

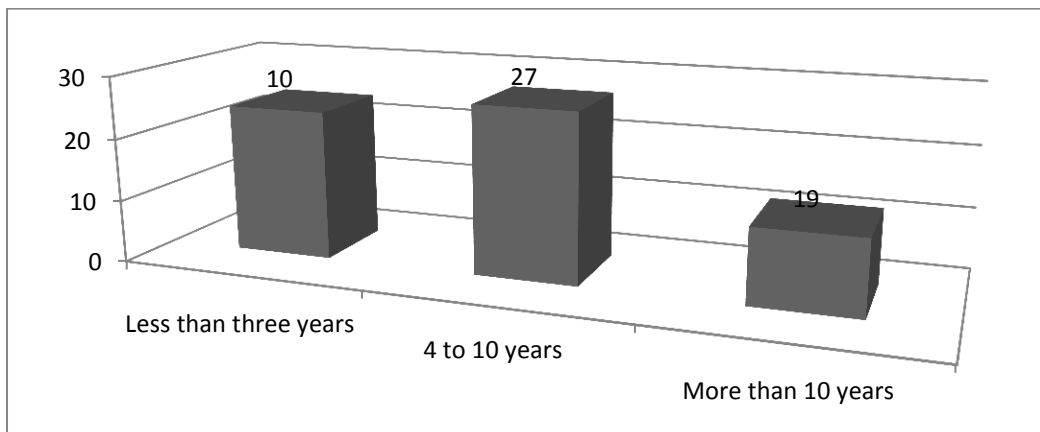


## 4.2 Demographic Characteristics

This section provides the results of basic information sourced from the respondents of the study.

### 4.2.1 Length of Company Operation

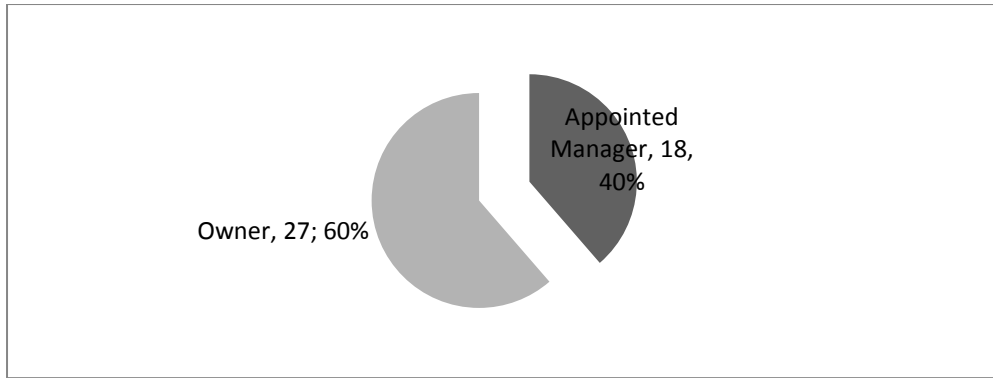
Majority (27) SMEs have been in operation for 4 to 10 years with 19 having been in operation for more than 10 years. The results also show that 10 SMEs in Nairobi have less than 3 years in operation. The results imply that the information received for the study's objective is satisfactory given that majority had significant years of operation.



**Figure 4.1: Length of SME Operation**

### 4.2.2 Respondents' Position in the Company

Twenty seven percent of the respondents were owners of the SMEs while the appointed managers constituted of 40% of the sample. These results could be interpreted to mean that majority responses received from were adequate enough to address the objectives of the study.



**Figure 4.2: Position of the Respondent**

### **4.2.3 Scope of Operation**

The SME owners/managers were asked to indicate whether their companies extend regionally or nationally. Majority of the respondents (63%) indicated both regionally and nationally while few (37%) indicated that their business has extended regionally. This results imply that the companies have well implemented prospects that has enabled them grow nationally and region-wide, thus the data gathered herein will be sufficient enough in discussion of SMEs and globalization.

### **4.3 Content Analysis**

This section provides the results from the interview guide that was submitted to the MSEA managers. All targeted respondents from the MSEA participated in the data collection for this research.

On the question of whether globalization has led to creation of employment opportunities; one respondent from the business development department provided a best response that was sampled out and given below;

## Response 1

*'The development of SMEs has seen the creation of wealth and employment thus reduction in poverty. Majority SMEs in Kenya find themselves operating in a competitive environment thus finding themselves going global in search of new markets. As a result, its growth in terms of units, employment, output and exports has come up. International and national policies changes have thrown open new opportunities and markets to other small scale industries within and without Kenya has led to increase in employment of diverse workforce'*

The managers from MSEA all agreed that there were few foreign SMEs having operations in Kenya; for instance Hoggers ltd, Lee construction ltd, Victoria Furniture and Alexander Forbes. They further agreed that the same companies employ local expertise to work for their organization. The respondents were also asked to indicate the challenges likely to face SMEs globalization and overall responses showed that; internally challenges such as poor management which is considered most critical, changes in modern technology and lack of resources hinder globalization. External challenges that affect SME globalization include; political interference, strict government regulations on global/regional trading and competition where the latter is considered most critical.

Additionally, the following response was sampled out as the best response on the challenges affecting SMEs globalization; *"Absence of networking and cooperation among the SMEs contribute to globalization challenges"*. This response supports those of Dasanayaka (2011) who carried out a study investigating the challenges of globalization in Sri Lanka SMEs.

One section of the respondents that is managers from MSEA provided the following recommendation so as to alleviate the challenges facing SMEs and globalization;

<b>Respondent</b>	<b>Statement</b>
1	<i>Coherent policies and strategies to develop SMEs to their full potential is significant.</i>
2	<i>Development of marketing assistance schemes such as marketing research, quality marketing, ancillary development, export promotion and direct government purchase programme</i>
3	<i>Technological progression and in-house innovations in technology and promotion of linkages need to be encouraged consciously and consistently</i>
4	<i>The benefits and need to go for technology development through either technology transfer or technological innovations should be emphasized in the light of dimensions of global competition</i>
5	<i>Financial infrastructure needs to be broadened and adequate inflow of credit to the sector ensured taking into consideration the growing investment demand including the requirements of technological transformation</i>

Managers from MSEA agreed that SMEs have a future in the global competition. From the results it is convincing that globalization in SMEs will be huge as it is all about the spread of economic innovation around the world. These results confirm the findings of Hitt et al (2001). SMEs globalization would also benefit the government and countries where such globalization connects the country to opportunities, civilization, technology among other partnerships geared towards development. Thus, the government will operate flexible rules for external trading which increases the span of SMEs globalization

#### **4.4 Descriptive Statistics**

This section provides results on the questions asked using the likert scale method. These questionnaires were answered by the owners and managers of selected SMEs for this survey. The responses herein were quantitatively received thus data had to be subjected to SPSS for generation of descriptive statistics. Descriptive statistics provide percentages, mean and standard deviation of the responses received.

##### **4.4.1 Globalization on Employment Opportunities**

One of the objectives of the study was to establish the impact of globalization on employment opportunities and poverty reduction. Fifty one percent of the respondents indicated that free trade in Kenya leads to specializing in production of those goods and services that we can produce most efficiently while importing all others. Forty one percent of the respondents neither agreed nor disagreed that as a result of globalization, there could be anticipated job losses. Fifty five percent of the respondents indicated that globalization within country benefits the whole national economy. The internet was at a great extent found as an opportunity that has helped SMEs operate globally as agreed by 57% of the respondents.

The results imply that globalization positively impacts employment opportunities and poverty is at some significant level alleviated with uncertainty of whether jobs may be lost or not. The results agree with those of Dasanayaka (2011) who stated that globalization in Pakistan's SMEs has led to immense contribution in areas such as employment generation. The results also agree with those of Asiedu and Freeman (2006) who state that SMEs globalization contribute to over 55 percent of GDP and over 65 percent of total employment.

**Table 4.2: Globalization and Employment Opportunities**

Statement	Not at all	Some extent	Fairly	Moderate Extent	Great Extent
Free trade in Kenya leads to specializing in production of those goods and services that we can produce most efficiently while importing all others	9.5%	15.9%	23.8%	20.6%	30.2%
As a result of globalization, there could be anticipated job losses	10.6%	12.7%	41.7%	11.1%	23.8%
Globalization within country benefits the whole national economy	20.6%	15.9%	7.9%	31.7%	23.8%
The internet is an opportunity that has helped our company operate globally	12.7%	15.4%	14.3%	25.9%	31.7%

#### 4.4.2 Factors Hindering SMEs Globalization

Another objective of the study was to understand what the owners and managers of SMEs view as the challenges or factors that hinder globalization. From the results provided in Table 4.3 below it was found that seventy three percent of the respondents believe that the challenge of capitalization of opportunities for growth and development while at the same time minimizing the risks affects SMEs going global while 66% view that government's strict regulations and overseas trade tariffs hinder SMEs globalization. High competition in the market especially big/ foreign organizations hinders SMEs from going global as shown by 70% responses. Lack of entry of Kenyan SMEs in the business process market hinders the opportunity for globalization as indicated by 51% response rate. These results agree with those of Boojihawon (2006) who states that factors such as; macro-economic policies and

institutional frameworks have affected Africa's ability to attract foreign investment as the global race intensifies.

**Table 4.3: Factors Hindering SMEs Globalization**

<b>Statement</b>	<b>Not at all</b>	<b>Some extent</b>	<b>Fairly</b>	<b>Moderate Extent</b>	<b>Great Extent</b>
In SMEs going global there is the challenge of capitalization of opportunities for growth and development while at the same time minimizing the risks.	1.6%	6.3%	19.0%	19.0%	54.0%
Government's strict regulations and overseas trade tariffs hinder SMEs globalization	1.6%	3.2%	28.6%	33.3%	33.3%
High competition in the market especially big/ foreign organizations hinders SMEs from going global	0.0%	11.1%	19.0%	23.8%	46.0%
Lack of entry of Kenyan SMEs in the Business process market hinders the opportunity for globalization	20.5%	19.0%	7.9%	12.9%	39.7%

#### **4.4.3 Strategies That Facilitate Quick Integration of SMEs to Globalization**

The study also sought to find out what strategies facilitate quick integration of SMEs into globalization. The results are provided in Table 4.4 below. Government support on SMEs globalization through promotion of free and fair trade regulations would facilitate quick globalization of SMEs as agreed by 54% respondents. Increasing the demand of the products being traded by SMEs increases their chances of going international as supported by a 78% response rate. Sixty two percent agreed that

SMEs should invest heavily in R&D so as to come up with world class competitive products and services globally. Integration of technology into business operations can facilitate globalization opportunities for the companies as supported by 53% respondents while 51% of the responses received indicate that strategic partnerships can also fasten the going international of SMEs. The recommendation provided by the respondents on improvement of technology corroborate the findings of Lozi (2008) who views that technology improvements and innovation are key in reducing the challenges of globalization.

**Table 4.4: Strategies that Facilitate Quick Integration of SMEs to Globalization**

<b>Statement</b>	<b>Not at all</b>	<b>Some extent</b>	<b>Fairly</b>	<b>Moderate Extent</b>	<b>Great Extent</b>
Government support on SMEs globalization through promotion of free and fair trade regulations would facilitate quick globalization of SMEs	6.3%	6.3%	33.3%	30.2%	23.8%
Increasing the demand of the products being traded by SMEs increases their chances of going international	1.6%	1.6%	19.0%	27.0%	50.8%
SMEs should invest heavily in R&D so as to come up with world class competitive products and services globally	0.0%	7.9%	30.2%	44.4%	17.5%
Integration of technology into business operations can facilitate globalization opportunities for the companies	0.0%	27.0%	20.6%	31.7%	20.6%
Strategic partnerships can also fasten the going international of SMEs	18.6%	23.8%	5.9%	23.8%	27.9%



## **CHAPTER FIVE**

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

#### **5.1 Introduction**

This chapter addressed the summary of the findings, the conclusions and the recommendations. This was done in line with the objectives of the study.

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

This section provides qualitative and quantitative results of the study which is done according to the objectives of the study.

##### **5.2.1 SMEs Globalization on Employment Opportunities and Poverty Reduction**

One of the objectives of the study was to identify whether globalization of SMEs increases employment opportunities thus reducing the poverty level in the country. The results show that SMEs globalization has led to greater employment opportunities as a result of global competition, international policies have opened a free market for operation of SMEs all over the world and maximization of the human capital within the host communities. From the descriptive statistics it was found that globalization has improved the economy of the country as free trade has led Kenya to produce goods and services than importing others and this has improved the national economy.

### **5.2.2 Factors Hindering SMEs Global Integration**

The second objective of the study was to establish the factors that hinder the ability of SMEs to integrate globally. It was found that key challenges include; poor management competence, changes in modern technology, political interference, high competition in the market especially big/ foreign organizations, government's strict regulations and overseas trade tariffs and lack of entry of Kenyan SMEs in the Business process market hinders. Lack of financial access in terms of credit/loans from financial institution due to the rules or structures of lending hinder the expansion of SMEs into regional areas. Government may express interest in ownership of companies that are going global so as to have control of the same, thus this hinders most SME managers from accommodating the thought of going global.

### **5.2.3 Strategies that Facilitate Integration of SMEs into Globalization**

The third objective of the study was to identify the strategies that would facilitate SMEs to globally integrate. It was found that technology improvement that greatly opens opportunities to globalization should be emphasized and this can be done through linking with countries of advanced technologies so as to be at par with the changes that come along with the same. Another strategy found to be efficient was the development of a research and development department or campaign for SMEs where market research, quality marketing and export promotion could be analyzed and solutions on how to improve the same provided. To curb the challenge of access to financial resources, the study found that financial infrastructure needs to be broadened to ensure that there is inflow of credit for investments. Strategic

partnerships among SMEs in different countries could fasten the growth of SMEs into globalization.

### **5.3 Conclusions**

Following the results and findings of the study it can be concluded that indeed there is some impact on globalization of SMEs. However small the impact is, the same can be improved if only SMEs stay interconnected with the global world. Globalization has been found to bring a positive impact on the economic being of the country and of its citizens at large. This, as identified from the results is due to the increase in employment opportunities, production of own goods and save the cost of importing what is already there.

Challenges that hinder globalization such as lack of access to financial resources may be as a result of high interest rates and stringent borrowing conditions. The government does not provide rules and policies that make global trade any easier. The policies are always changing thus keeping abreast with the same becomes a challenge. Kenya as a developing country lags behind in terms of technology thus, lack of opening a free market may even cause more harm to the country in terms of technological growth. These challenges can be alleviated if there are flexible rules that favor globalization as it is not only a benefit to the owner of the organization but the entire nation as a whole.

### **5.4 Recommendation**

The government can assist in the support of SME globalization through promotion of free and fair trade regulations that would facilitate quick globalization .Additionally,

the government can let go their bureaucratic interference, discretionary rules and regulations as well as corruption to facilitate ease of SMEs into globalization.

Formulation of economic policies that would provide the needed support for proper small-scale firms' integration into the global economic activities and creation of sound and conducive investment climate for the efficient functioning of market forces is necessary for small scale business to achieve global integration.

Another recommendation goes to SMEs or organizations opting to go global. Having partnering arrangements and strategic alliance between and amongst firms working in the same industry and line of products provides a strong font for global integration. Further organizations desiring to go global must remain proactive so as to make advances on opportunities that present themselves. SMEs should also be open to changes that technology brings as this puts the organization at a competitive edge, locally, regionally and internationally.

## **5.5 Areas for Further Studies**

The study focused on small and medium enterprises. It is therefore recommended that on the large corporate or a multinational organization for purposes of investigating the impact of globalization. The results of this study will be used to measure the extent of the impacts of globalization of such companies and at the same time compare the results with those of SMEs.

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**UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS  
MBA PROGRAMME**

Telephone: 020-2054162  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE... 16/09/2014

**TO WHOM IT MAY CONCERN**

The bearer of this letter ..... SAROPA MARY SELA .....


Registration No ... D6116811512011 .....

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

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

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

Thank you.

  
**PATRICK NYABUTO  
MBA ADMINISTRATOR  
SCHOOL OF BUSINESS**





## **Appendix II: Research Questionnaire**

### **QUESTIONNAIRE TO SME MANAGERS/OWNERS**

Kindly answer the following questions as honestly and accurately as possible. The information given will be treated with a lot of confidentiality. Please do not write your name anywhere on this questionnaire. You are encouraged to give your honest opinion.

#### **PART 1: DEMOGRAPHIC INFORMATION**

1) How long has your company been in Operation?

Less than 3 years [ ]      4 to 5 years      [ ]      6 to 10 years      [ ]

More than 10 years [ ]

2) What is your level in the company?

Owner [ ]      Appointed Manager [ ]

3) Does the scope of your company operation extend;

a) Regionally? [ ]      Nationally [ ]

If the answer **NO** above, does your strategic plan has prospects of going global in the next five years?

#### **PART II: Measurement of Objectives**

Please mark (x) in the box which best describes your agreement or disagreement on each of the following statements.

**GLOBALIZATION ON EMPLOYMENT OPPORTUNITIES AND POVERTY  
REDUCTION**

<b>No</b>	<b>Statement</b>	<b>Not at all</b>	<b>Small Extent</b>	<b>Fairly</b>	<b>Moderate Extent</b>	<b>Great Extent</b>
1	Free trade in Kenya leads to specializing in production of those goods and services that we can produce most efficiently while importing all others.					
2	As a result of globalization, there could be anticipated job losses					
3	Globalization within country benefits the whole national economy.					
4	The internet is an opportunity that has helped our company operate globally					

**FACTORS HINDERING THE ABILITY OF SMES GLOBALIZATION**

<b>No</b>	<b>Statement</b>	<b>Not at all</b>	<b>Small Extent</b>	<b>Fairly</b>	<b>Moderate Extent</b>	<b>Great Extent</b>
1	In SMEs going global there is the challenge of capitalization of opportunities for growth and development while at the same time minimizing the risks.					
2	Government's strict regulations and overseas trade tariffs hinder SMEs globalization					
3	High competition in the market especially big/ foreign organizations hinders SMEs from going global					
4	Lack of entry of Kenyan SMEs in the Business process market hinders the opportunity for globalization					

**STRATEGIES THAT FACILITATE QUICK INTEGRATION OF SMALL-SCALE FIRMS INTO GLOBALIZATION**

<b>No</b>	<b>Statement</b>	<b>Not at all</b>	<b>Small Extent</b>	<b>Fairly</b>	<b>Moderate Extent</b>	<b>Great Extent</b>
1	Government support on SMEs globalization through promotion of free and fair trade regulations would facilitate quick globalization of SMEs.					
2	Increasing the demand of the products being traded by SMEs increases their chances of going international					
3	SMEs should invest heavily in R&D so as to come up with world class competitive products and services globally					
4	Integration of technology into business operations can facilitate globalization opportunities for the companies					
5	Strategic partnerships can also fasten the going international of SMEs					

**Thank you!!**

### Appendix III: List of Leading SMEs in Nairobi County

<b>RANK</b>	<b>NAME OF COMPANY</b>
1	JUNGLE MACS EPZ LTD
2	PENTAPHARM LTD
3	KEMA E A LTD
4	PG BISON KENYA LTD
5	MUKURWEINI WAKULIMA DAIRY
6	SOFTWARE TECHNOLOGIES LTD
7	KENTONS LTD
8	SBO RESEARCH LTD
9	LEE CONSTRUCTION LTD
10	SATGURU TRAVELS AND TOURS SERVICES LTD
11	DAWA LTD
12	TRANS BUSINESS MACHINES
13	UNES LTD
14	SOKO SWEETS LTD
15	I SOLUTIONS
16	HOGGERS LTD
17	FARAM EA LTD
18	MASTER POWER SYSTEMS LTD
19	EXPRESS COMPANY LTD
20	VAJAS MANUFACTURERS LTD
21	ULTIMATE ENGINEERING
22	TIGER BRANDS (K) LTD
23	MURINGA HOLDINGS LTD
24	DISTRIBUTED COMMUNICATION SYSTEMS LTD
25	MADHUPAPER KENYA LTD
26	STOIC COMPANY LTD
27	KENWEST CABLES LTD
28	VIVA PRODUCT LINE LTD

29	NILA PHARMACEUTICAL LTD
30	FAST CHOICE LTD
31	INDENT LTD
32	ENGINEERING SUPPLIES 2001
33	SKYLARK CREATIVE PRODUCT
34	GLACIER PRODUCTS LTD
35	KANDIA FPS LTD
36	DESBRO ENGINEERING LTD
37	ALEXANDER FORBES
38	INTERSAT AFRICA LTD
39	ALPINE COOLERS LTD
40	GENESIS KENYA INVESTMENT
41	WARREN ENTERPRISES LTD
42	SARACEN MEDIA
43	MEDIAEDGE INTERACTIVE LTD
44	GINA DIN CORPORATE
45	BAUS OPTICAL LTD
46	TONONOKA ROLLING MILLS LTD
47	VITAFOAM PRODUCTS LTD
48	CAPITAL COLORS CREATIVE DESIGN LTD
49	POWER CONTROLS LTD
50	CECYPO LTD
51	KENYA BUILDERS & CONS. LTD
52	SIMBA TECHNOLOGY LTD
53	LOTA MOTORS LTD
54	PRIME FUELS KENYA LTD
55	KENTONS LTD
56	CARIBON LTD
57	CREATIVE EDGE LTD
58	THE PHOENIX LTD
59	MENTOR HOLDINGS
60	SECUREX AGENCIES (K) LTD

61	CHEMSERVE CLEANING
62	IMPALA GLASS INDUSTRIES
63	SPECICOM TECHNOLOGIES LTD
64	CHARLESTON TRAVEL LTD
65	CHANDARANA SUPERMARKETS
66	MUKURWEINI-WAKULIMA DAIRY LTD
67	RADAR LTD
68	CIRCUIT BUSINESS SYSTEMS
69	MASTER FABRICATORS LTD
70	RIFT VALLEY AGENCIES LTD
71	CAPITAL AIRTIME LTD
72	TECHBIZ LTD
73	SEASONS RESTAURANT & HOTELS
74	HENKEL CHEMICALS E.A
75	MICROSKILLS I.T(K) LTD
76	PHARMART CHEMISTS
77	OIL SEALS AND BEARINGS CENTRE
78	KAPS LTD
79	DEEPA INDUSTRIES LTD
80	RELIABLE ELECTRICAL
81	HEALTHCARE DIRECT LTD
82	VICTORIA FURNITURE'S LTD
83	FAIRVIEW HOTEL
84	TRANS BUSINESS MACHINES
85	SCHINDLER LTD
86	PRECIOUS INSURANCE BROKERS LTD
87	CHEMOQUIP LTD
88	MAKINI SCHOOL LTD
89	TRAVEL CARE LTD
90	WINES OF THE WORLD
91	PWANI CELLULAR SERVICES LTD
92	NIVAS LTD

93	RAMCO PRINTING WORKS LTD
94	SHEFFIELD STEEL SYSTEMS
95	BIMAS
96	ELECTRO WATTS LTD
97	SOFTWARE TECHNOLOGIES LTD
98	WINAFRIQUE TECH
99	COMPUTECH LTD
100	TRAVEL AFFAIRS LTD

**Source: KPMG (2012) Website: [www.kpmg.co.ke](http://www.kpmg.co.ke)**