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Study on the Speed of Internationalization of Kenyan Small and Medium Enterprises (SMEs)

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Abstract

The acceleration of globalization, aided by the rapid development in information and communication technologies, improved transport facilities and declining trade barriers among others, has resulted in both large and small firms' rapid internationalization. Firm internationalization is a topic that has been widely researched but little is known of how this takes place in developing countries. The basic idea of this research was to describe the internationalization process of SMEs in Kenya with a focus on the speed of internationalization. The study aimed at identifying the key influences of the speed of internationalization. Data was gathered by the use of questionnaires that were distributed to 200 companies in Kenya. A total of 82 usable responses were obtained from this exercise. Correlation coefficients, factor analysis, reliability tests and regression were the statistical tools used. The software employed was IBM SPSS Version 19. The results show that administrative barriers and International work experience are indeed great determinants of speed of internationalization. Preliminary findings indicate that when Kenyan companies go abroad, they follow traditional internationalization pattern both in terms of entry mode choice and psychic distance. This study provides new knowledge and important insights that will be useful in SME research.

Keywords *Internationalization Process, Small and medium enterprises, Developing countries, International Business, International New Ventures, Born Globals.*

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Chapter 1 Introduction

Internationalization and international entrepreneurship among Small and Medium Enterprises (SMEs) has remained a topic of considerable importance, perhaps because of the observed growth effects, and of the demonstrated capacity of driving economic development at national, regional, and global levels (European Commission, 2007).

As many markets become more and more saturated most companies are left with no option but to search for new opportunities in other countries around the world. This trend was in the past only associated with large firms alone but not anymore. It is now increasingly evident that smaller, younger firms can also become global even at early stages of their growth. Today, being international lies within the scope of every firm that aims to grow its business competitively and continuously (Gary A, 2001). The acceleration of globalization, aided by the rapid development in information and communication technologies, improved transport facilities and tariff reductions, just to name but a few, present opportunities and challenges to both large firms and Small firms alike.

SMEs play a crucial role in the growth of both emerging nations and advanced market economies especially through providing employment opportunities to the citizenry and on their positive impact on the economy. A greater percentage of the Kenyan economy depends on these SMEs and as a result, the government is so keen on growing and expanding the sector. The Kenyan government has taken radical measures to liberalize its market through major reforms so as to encourage small and medium scale entrepreneurs both from within and without the country. Some of the measures that the government has taken to try to improve the sector included the removal of import licensing, price controls, foreign exchange controls, and fiscal and monetary restraints.

The internationalization process of SMEs has been viewed from several perspectives. Traditionally, it has been described by the stage models, which posit that firms gradually internationalize in an incremental manner through a series of "evolutionary" stages. In contrast, another perspective is the rapid internationalization model which states that many firms internationalize in a rapid manner, and sometimes right from birth. Search firms have been crowned names such as Born-Globals (McKinsey & Co., 1993), and International New Ventures (McDougall, Shane, & Oviatt, 1994). It would be very interesting to know the perspective followed by the firms in Kenya when they are internationalizing. Do the Kenyan firms follow the traditional perspective or do they follow the new perspective in their quest for internationalization? How fast do these firms go abroad?

Objective of the Study

The growing participation of SMEs and their key role in economic development, and the limited number of SME internationalization studies in developing countries has prompted my selection of this topic. Thus, the aim of this paper is to examine the specific process that is followed by the small and medium sized firms in their internationalization pursuits and to identify the key influences of the speed of internationalization. Insights into how the internationalization process occurs within the Kenyan arena will facilitate comparisons with internationalization processes identified elsewhere in the world, as well as assist in the discovery of what needs to be done to unlock the full potential of SMEs on a global scale.

In order to achieve the above stated objective, this thesis has been broken down into five main chapters: Chapter 1 introduces the thesis and presents the research background, its setting and focus. Chapter 2 reviews relevant literature on SME Internationalization, to provide a foundation for the integrative conceptual framework for the study. Chapter 3 presents the research framework and discusses the hypotheses of the study. In Chapter 4, the statistical results are presented to determine the process and influential determinants of the firms' internationalization. Chapter 5 discusses and interprets the findings in comparison to the literature to develop a model of how Kenyan SMEs internationalize. Chapter 6 presents the concluding remarks, implication and suggestions for future research.

Chapter 2 Theoretical Background

2.1 Types and Features of SME Businesses in Kenya

In Kenya, survivalist enterprises are activities by people unable to find a paid job or get into an economic sector of their choice. Income generated from these activities usually fall far short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. Poverty and the attempt to survive are the main characteristics of this category of enterprises.

Micro-enterprises in Kenya are very small businesses, often involving only the owner, some family member(s) and at the most one or two paid employees. They usually lack 'formality' in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However, many micro- enterprises advance into viable small businesses.

Small enterprises constitute the bulk of the established businesses, with employment ranging between 5 and about 50 employees. The enterprises will usually be owner-managed or directly controlled by the owner-community and are mostly family owned. They are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction.

Medium enterprises constitute a category difficult to demarcate vis-à-vis the "small" and "big" business categories. It is still viewed as basically owner/manager-controlled, though the shareholding or community control base could be more complex. It is characterized by the employment of more than 200 employees and capital assets of a substantial amount of about Kshs. 2 million (excluding property).

2.2 Trade and Financial Reforms in Kenya

With economic growth as the principal target, Kenya has implemented deregulation and trade liberalization policies. Trade liberalization as a means of encouraging growth emerged after a history of restriction on trade. In Kenya, a comprehensive policy framework for structural reform was first drawn up in 1980s. The WTO considers Kenya to have made some progress toward trade liberalization nonetheless, it rules that there are many reforms still needed.

Financial liberalization preceded trade reforms and opening of capital account. Interest rates were liberalized in 1991. The government embarked on a phased tariff reductions and rationalization of the tariff bands in 1990. Simultaneously, foreign exchange controls were gradually relaxed, starting with the introduction of Foreign Exchange Bearer Certificates (Forex-Cs), which could be used for automatic import licensing in 1991. During the same year, currency declaration forms were abolished. In 1992, foreign exchange retention accounts were introduced 100% for nontraditional exporters and 50% for traditional exports. Further secondary market for fore-C's was established. Significant changes were witnessed in 1993 following the resumption of aid after two years suspension. The government adopted a tight monetary and fiscal policy and also made significant steps in liberalizing the external sector. For example, in March 1993, Forex-Cs were made redeemable at market rate instead of official exchange. However, in the same month, all the retention accounts were revoked and import licensing and exchange controls reinstated. In May, import licensing was abolished and retention accounts reintroduced, while in October, the official exchange rate was abolished, paving way for freely floating exchange rate. With the trade liberalization having moved a substantial step, capital controls were relaxed for offshore borrowing in February 1994 subject to quantitative limits. Complete liberalization of offshore borrowing was implemented in May 1994, while some restrictions on inward portfolio investment were lifted in January 1995. By 1995, virtually all the foreign exchange restrictions had been eliminated; foreign exchange bureaus were permitted and the exchange control Act was repealed.

Table 1: Trade and Financial Reforms: Chronology of key Events/Reform

Period	Reform/Key Events
1989	VAT remission for exporters & Exchange Risk Assumption fund Minimum saving rate raised by 0.5% and maximum lending rate raised to 15.5%
1991	Foreign Exchange Bearer Certificates (Forex-Cs) introduced Interest rate liberalized Currency Declaration Forms abolished
1992	Increase in minimum capital/assets ratio from 5.5%-7.5% & guidelines to encourage self-regulation Export Promotion Council established
1993	Forex-Cs made redeemable at market rate instead of official exchange rate. Devaluation of 25% of official exchange rate Revoke all retention accounts, reinstate import licensing and exchange controls Max import tariff reduced from 60% -50% Introduction of one way foreign exchange auction system Two way(to buy and sell) forex auction system introduced Freely floating exchange rate - abolish official exchange rate Restrictions on remittance of profits removed. Residents allowed to borrow abroad up to US$ 1m
1994	Current account liberalized. 100% retention accounts for all. Capital account liberalized. Exchange controls abolished. Abolish all export taxes. Kenyan nationals allowed to invest abroad
1995	Forex bureaus permitted. Portfolio investment by foreigners in stock exchange up to 20% equity permitted Repeal of Exchange Control Act
1996	Treasury bills for 30, 90, 180 days replaced by 18, 91, 182 days; 60 and 270 days discontinued
2000	IMF froze funds Donde bill on control of interest rates

Source: Ngugi (2003), O'Brien and Ryan (1999), Ryan (2002)

2.3 Internationalization – Evolution of a Concept

The research on how small firms internationalize brings us back to the stages theories where the changing behavior of a firm in the course of the development of its international operations is explained. Most of stages models argue that managerial learning of a firm and its networks strongly influence the internationalization process, suggesting that this process is gradual with respect to knowledge attained (Johanson and Vahlne, 1977, Andersen, 1993, Coviello and McAuley, 1999).

Nonetheless, later in the 1990s, it become increasingly evident that a new process of internationalization - International New Ventures or Born Global firms, came into play and thus was generating a stream of research that often poses a direct challenge to the established process theory of internationalization (Oviatt and McDougall, 1994, Cavusgil and Knight, 2009). Scholars began to establish an alternative framework that would focus more on early internationalization and the type of firms that would follow early, rapid internationalization (McDougall and Oviatt, 2000, Rialp et al., 2005, Jones et al., 2011). The literature is still in the process of establishing a solid theoretical foundation, and it appears that there are conflicting states of knowledge and predictions from incremental behavior theory on one hand and entrepreneurship theory on the other hand (Coombs et al., 2009, Keupp and Gassmann, 2009).

2.3.1 Traditional Internationalization Perspectives

The two major models dominating the traditional internationalization perspective are the Uppsala and the Innovation-related Internationalization (Bilkey et al., 1977; Cavusgil, 1980). The Uppsala model comes from Sweden, whilst the Innovation-related model comes from the USA; it is clear that both share the same notion that firms engage in international activities in incremental steps and through distinct stages.

2.3.1.1 Uppsala Model

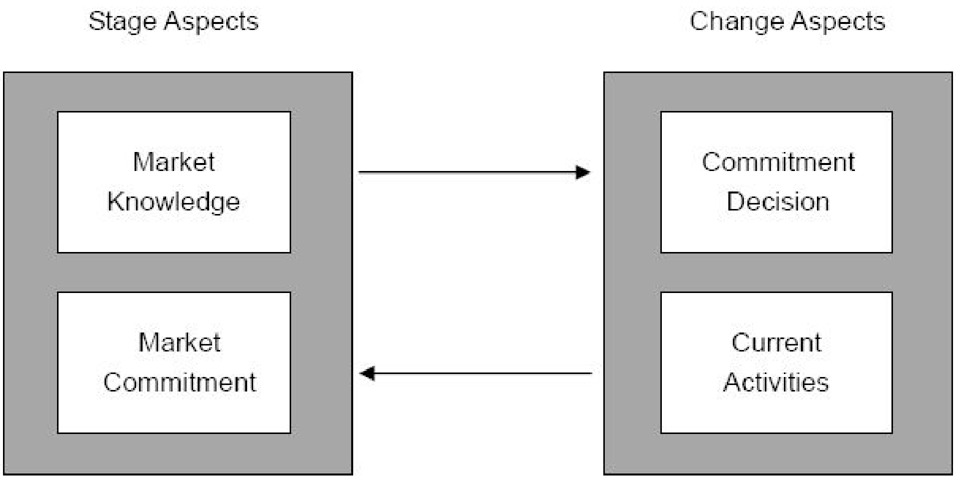
The Uppsala model was initiated in the 1970s by Johanson and Wiedersheim-Paul (1975) and since then the model has been further developed. The Uppsala model states that internationalization process takes place through four incremental steps called the establishment chain, which are: no regular export activities; export via independent representatives (agents); establishment of an overseas sales subsidiary; and establishment of an overseas production/manufacturing subsidiary respectively. Firms built their presence in foreign markets incrementally. These firms would often develop their international operations in small steps, rather than by making large foreign production investments at a single point in time. The authors of this model distinguished four sequential steps (establishment chain), stating that each consecutive step translates to an increased resource commitment to a particular market.

The more resources a firm commits to a market, the greater their gain in exposure and experience and the trust to commit more resources. Johanson and Vahlne demonstrated that a firm will enter a new market at the lowest resource commitment possible and begin to expand from this level following the establishment chain.

Organizations enter those markets that they know best and only move into more distant/unfamiliar markets after feeling that they have gained sufficient knowledge. Johanson and Vahlne introduced 'psychic distance' to measure a market's foreignness. They defined psychic distance as factors preventing or disturbing the flows of information between a firm and the market, and this include variables such as language, culture, political, legal and educational systems. The order of the different stages in the internationalization process is directly related to the relative psychic distance between home country and host country: Firms will be reluctant to commit a lot of resources to the distant countries in terms of psychic distance. Organizations that internationalize will enter markets gradually with an increasing psychic distance (choice of target market).

The internationalization process is composed of the market experience and the market knowledge component. Johanson and Vahlne created a dynamic model by assuming that market knowledge and experience both affect commitment decisions and the way current internationalization activities are carried out. Current commitment decisions and activities in turn change the level of market knowledge and market experience. This feedback loop creates a learning cycle.

Figure 1: Uppsala Internationalization Model



There are three situations when firms do not need to follow the incremental steps of the establishment chain according to the authors: When firms possess a large pool of resources they will be less susceptible to the consequences of (bad) commitments and able to step up their internationalization effort at a faster rate; relevant market knowledge can be acquired in ways other than through direct experience when market conditions are stable and homogeneous; once a firm has gained experience from a market with similar conditions, it may be possible to generalize this experience and apply it to the new target market.

2.3.1.2 Innovation Related Model

Drawing on the behavioral perspective, Innovation-related internationalization models emphasize innovation (Andersen, 1993). These models were developed by Bilkey and Tesar (1977), Cavusgil (1980), Reid (1981) and Czinkota and Johnston (1981) and they all involve various stages and types of entry mode. Andersen (1993) argues that the models are closely associated with the Uppsala model but all models except for Cavusgil's (1980) focus on exporting as the mode of entry. The Cavusgil (1980) model conforms to the Uppsala model although it includes other more advanced and complex foreign entry modes. In addition, the model strongly suggests firm specific factors and managerial characteristics are the most influential determinants for a firm's internationalization (Cavusgil, 1980).

2.3.2 New Internationalization Perspectives

Rapid internationalization models emerged due to evidence that many firms avoid incremental patterns in their internationalization process and claims that some firms go into international markets right from birth (Bell, 1995; McKinsey et al., 1993; Oviatt et al., 1994). Some empirical evidence conforms to this claim, and this challenges the validity of incremental models, in particular, the Uppsala model (Bell et al., 2000; Crick & Jones, 2000). This type of firms have been crowned many names like Born Globals (Rennie, 1993), International New Ventures (Oviatt et al., 1994), Global Start-ups (McDougall et al., 1994), Born International (Majkgård & Sharma, 1999), High

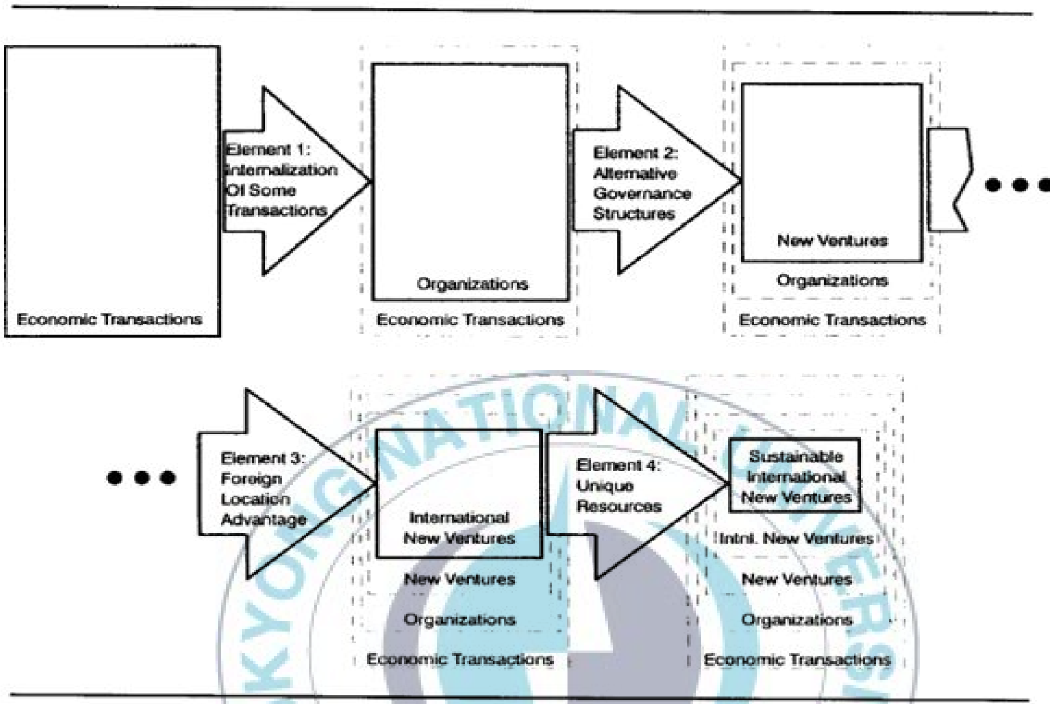
Technology Start-ups (Jolly, Alahunta, & Jeannet, 1992), Instant Internationals (Preece, Miles, & Baetz, 1999) and Virtual Instant Global Entrepreneurs (Katz, Safranski, & Khan, 2003).

The rapid models are identified by the total turnover, speed or pace of internationalization and the scope. Born Globals, International New Ventures or Global Startups are proposed as having at least 25 percent of foreign sales in their total turnover and operating in international market within 3 years of inception (Jones & Dimitratos, 2004) Other characteristics may include beginning international activities before the start of operations, engaging in international activities when there are opportunities or relying on formal and informal network entry modes. In addition, firms can be actively engaged in a wide number of regions in the world, disregarding psychic distance. These firms are known to have key personnel who possess high levels of international orientation, skills, experience and high levels of confidence (Van der Sijde, Wakkee, & Kirwan, 2004). Despite the many concepts associated with the rapid internationalization models the most prominent ones are Born Globals and International New Ventures (Hammoudi, 2005).

2.3.2.1 International New Ventures

An International New Venture (INV) is defined "as a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" (Oviatt et al., 1994). The INV model integrates transaction cost analysis, market imperfections and internalization theories and this model, shown in Figure below consists of four necessary elements for sustainable new ventures.

Figure 2: Elements for Sustainable International New Ventures



(*Source: Adapted from Oviatt & McDougall(1994, p. 54)*)

The framework begins with element 1 talking of internalization of some transaction. This describes how the firm internalizes some transactions because of lack of resources. It then proceeds to element 2 which seeks to explain the alternative governance structures where the new ventures are distinguished from established firms because of abundant resources. In monitoring vital resources, the firms may go for hybrid structures (licensing, franchising or networking) rather than taking an internal handling approach. It then proceeds to explain element 3, which talks of foreign location advantage, referring to the cross border movement of the firms' economic transaction where the INVs find advantages to relocate transferable resources. This moves the INVs one-step higher from new ventures. At this stage, the INVs are perceived to possess unique resources, providing a competitive advantage to operating in foreign markets. Finally, element 4 tells us of the unique resources such as the excellent and diverse knowledge created. This creates sustainable competitive advantage for becoming "sustainable INVs".

According to Oviatt and McDougall (1994), this model has three focused issues: 1) "how", refers to the coordination of value chain activities; 2) "where", concerns the number of countries involved; and 3) "when", implies that age or timing of an overseas venture is prominent for firms' internationalization. Significantly, the timing and speed into foreign market entry are the distinct features between the incremental and rapid internationalization models (Antoncic & Hisrich, 2000).

Since the INV firms use fast track paths to internationalization they can bypass certain stages, so higher order entry modes are preferred. This contradicts incremental perspective. This is why the INVs theory is more applicable for fast growing technology-based firms (Autio & Sapienza, 2000; Crick & Spence, 2005) and knowledge-based SMEs (McEvily & Chakravarthy, 2002; Nummela, Saarenketo, & Puumalainen, 2005). The technology and knowledge-based firms also help explain the nature of Born Global firms.

2.3.2.2 Born Globals

Gabrielsson (2004) posits that Born Globals are similar to International New Ventures because they emerge due to cutting edge technology and access to a borderless marketplace. The Born Global firms start internationalizing immediately; sometimes circumventing domestic operations or working concurrently with domestic operations, or directly after start-up (Luostarinen & Gabrielsson, 2004). The emergence of Born Global firms is due to the global economy, where to survive against the forces of globalization, SMEs are advised to seek for overseas markets (Jones et al., 2004).

Beside globalization issues, such as the huge demand for globally customized products, growth of international value-chains and global networks and MNCs Seeking for global outsourcing, advances in technologies have contributed to the emergence of born global firms. Technology has sped up communication, transportation, production and process, access to knowledgeable human capital and international institutions offering financial, technology, tools, knowledge and Research and Development assistance (Knight et al., 1996). According to Madsen and Servais (1997) successful born globals depend on experience, ambition and motivation of the founders, corporate governance, the structure of the organization, market internationalization, technology and the environment. Although, the born global firms may have limited resources and little experience in international business, they usually offer niche products targeted at global markets and possess entrepreneurial knowledge-intensive skills, which enable them to offer value-added products and services (Gabrielsson & Al-Obaidi, 2004).

2.3.3 Other Internationalization Perspectives

2.3.3.1 Network Approach to Internationalization

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

Consequently, internationalization is defined in terms of connections developed through the commercial operations carried out with other countries via the three stages described by Johanson and Mattson (1988): prolongation, penetration and integration. Prolongation is the first step to integrate the network. It is accompanied by new investments for the firm. The penetration refers to the development of the positions of the firm within the network and the increase of its resources of commitment. Integration constitutes an advanced stage where the firm is linked-up to several national networks that must coordinate.

2.3.3.2 Resource Based View

The resource-based view (RBV) initiated by Penrose (1959) has received extensive interest in the SMEs internationalization literature (Fillis, 2001; Prahalad & Hamel, 1990). The RBV has two main principles; resources are not homogeneously spread across firms and resources cannot be transferred between firms without incurring costs (Shepherd et al., 2005). Firm resources are defined as “all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable to conceive of and implement strategies that improve its efficiency and effectiveness” (Barney, 1991).

It is debatable whether unique resource can drive SMEs to perform at international levels. The founders or key managers of SMEs who possess individual-specific resources, for instance, entrepreneurial orientation capabilities, specific knowledge and social bonds are important drivers for international success (Johanson et al., 1988; Knight, 2001). The high international orientation of decision-makers, their specific skills and knowledge and ability to network with others have helped Biotech SME firms from the UK, Germany and Netherlands to make their way successfully into overseas ventures. Knowledge, entrenched within the human resources is part of the source of competitive advantage (Barney, 1991), thus the greater a firm’s knowledge power; the earlier the internationalization process occurs (Autio, Sapienza, & Almeida, 2000). Consequently, if knowledge (that is valuable, rare, and difficult to imitate) is controlled and enhanced, the firm has an advantage for being competitive in international markets.

2.3.3.3 International Entrepreneurship

The importance of entrepreneurs is widely recognized as the main variables in SMEs' internationalization (Miesenbock, 1988). However, in order to create the most value, entrepreneurial firms, firms also need to act strategically, and this calls for an integration of entrepreneurial and strategic thinking (Hitt et al., 2001). Therefore, entrepreneurs can be seen as strategists who finds a match between what a firm can do (organizational strengths and weaknesses) within the universe of what it might do (environmental opportunities and threats) (Foss et al., 1995).

Entrepreneurial knowledge, relationships, experience, training, skills, judgment, and the ability to coordinate resources are viewed as resources themselves (Barney et al., 2001; Barney, 1991). These resources are socially complex and add value to the firm because they are not easy to imitate and other firms cannot simply create them (Alvarez and Busenitz, 2001). Entrepreneurs are individuals carrying out entrepreneurial actions (Andersson, 2000). They are one of the most important agents of change with the capacity and willingness to take risks in realizing their judgments, to be innovative and to exploit business opportunities in a market environment. Often these opportunities can be perceived in international markets and, to exploit them, entrepreneurs establish ventures that operate across national borders. They are "alert" to the possibilities of combining resources from different national markets because of the competencies (networks, knowledge and background) they have developed in their earlier activities (McDougall et al., 1994). Following the logic of the resource-based view of the firm, the possession of such competencies are not the same for all entrepreneurs. Only the entrepreneur possessing these competencies is able to combine a particular set of resources across national borders as the basis of an internationalized firm.

2.4 Comparison of Traditional vs. New Internationalization Perspectives

According to Bell and McNaughton (2000), the firm's internationalization is mainly distinguished by being a traditional firm utilizing an incremental approach to internationalization or a new perspective firm utilizing a rapid internationalization approach.

Table 2: Comparison of Traditional and New Perspectives

	Traditional Perspective	**INV Perspective**
Speed	Gradual/slow	Rapid/fast
Entry Mode	Evolution; from low commitment to high commitment	Revolution; hybrid structures (evidence of integration; licensing, joint ventures, overseas production)
Market Selection	Psychic distance Single market at a time	Foreign location advantage Many markets at once
Key factors	Experiential knowledge; psychic distance	Entrepreneurship; foreign location adv.

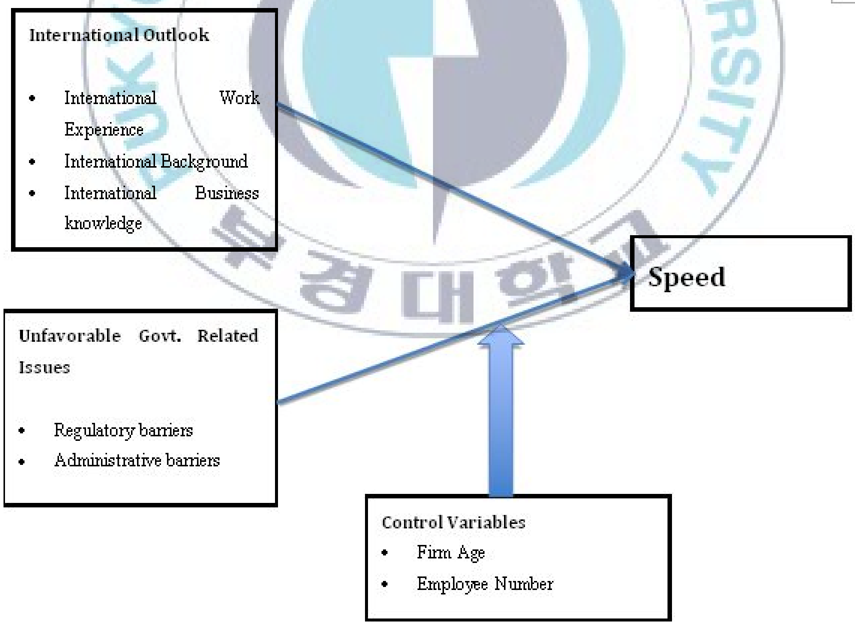
Consequently, the significant differences between the incremental and rapid internationalization models will enable this current study to identify the process of SMEs' internationalization in Kenya.

Chapter 3 Major Issues on Internationalization of Kenyan SMEs

Increased globalization and competition has led to a new phenomenon of internationalization and this represents a challenge to many approaches to internationalization. Especially in this new phenomenon and in SMEs in general, individual entrepreneurs (founders/manager's) and their personal factors and relationships have an evident position.

3.1 Speed of Internationalization

Figure 3: Speed of Internationalization



3.1.1 Factors Influencing Speed of Internationalization of Kenyan SMEs

3.1.1.1 International Outlook

This concept refers to certain characteristics specific to the decision maker, such as, previous international experience, time spent abroad and international business knowledge (Lloyd-Reason & Mughan, 2002).

Various scholars have acknowledged the influence the managerial international experience has upon SMEs export behavior both for the initial export involvement as well as for the expansion strategy into foreign markets (Madsen & Servais, 1997). According to Madsen and Servais (1997), factors such as experience from other internationally oriented jobs, experience from living abroad along with education mold the mind of the founder and reduce the psychic distances to specific product markets considerably. Manager's prior international experience enables them to import routines from previous workplaces, thereby reducing the costs of internationalization for the firm (Sapienza, Autio, George, & Zahra, 2006).

The time managers spend abroad has been regarded as an important factor that could explain export intention, propensity and intensity, given the fact that it implies managers' exposure to other cultures which leads to greater experiential knowledge about international markets (Leonidou, Katsikeas, & Piercy, 1998). Export managers who had experience of living or working abroad demonstrated, in general, higher levels of information-gathering activity on the international arena. Also, a recent study argues that by travelling abroad managers are better prepared to study the international market, identify business opportunities as well as meet potential overseas clients (Leonidou, Katsikeas, Palihawadana, & Spyropoulou, 2007).

However, it is not only the above mentioned determinants that may influence export behavior, but also the actual international business knowledge possibly acquired with the aid of these factors or based on former international business focused education and most likely required in order to yield high export performance, as previously emphasized by Gray (1997). According to the "upper echelon" perspective (Hambrick & Mason 1984), the management team has a great impact on organizational outcomes. This is especially the case for small and new organizations, as few historical and bureaucratic factors mediate the effect of management's strategic intent on organizational outcomes. Indeed, founders and key decision-makers are found to significantly impact the nature and pace of internationalization (Bloodgood et al. 1996; Preece et al. 1999; Crick & Jones 2000; Crick et al. 2001). Experience/background of founders and their relationships make out important resources of a firm and are important drivers or facilitators of internationalization.

Reuber & Fischer (1997) argue that decision-makers with more international experience are more likely to have in place a foreign business network and are more likely to have developed the skills needed to identify and negotiate with firms in a different culture. These resources are seen as particularly important when a new and young firm with poverty of resources is attempting to increase foreign sales. The relationships may thus, enable the firms to enter new markets at a faster rate than otherwise possible (e.g. by providing firm with complementary resources and by opening up markets).

Another approach in the research has been the link between experience and strategic internationalization choices such as market selection and choice of entry mode. In the study of small, technology-based Swedish firms, (Lindqvist, 1991), the findings of 15 pilot case studies indicated that in firms having experienced managers, the internationalization was characterized by more rapid foreign entry. Thus we formulate the following Hypotheses:

H1: The larger the magnitude of international outlook of key decision makers, the faster the speed of internationalization.

H1-a: The larger the magnitude of foreign work experience of key-decision makers, the faster the internationalization speed.

H1-b: The larger the magnitude of international background of Key-decision makers the faster the internationalization speed.

H1-c: The larger the magnitude of international business knowledge of Key decision makers, the faster the internationalization speed

3.1.1.2 Government Related Issues

A favorable investment climate is important for the investor and has a major influence on investments in a particular market. It encourages businesses to improve efficiency and productivity in order to increase revenues and capital available for investment. It also gives investors confidence in the market and encourages them to invest more capital. All governments are concerned with protecting their political and economic interests domestically and internationally. Consequently, they have to formulate protectionist policies. These policies affect the channel of distribution chosen by a company in international business. General regulatory activities may discourage export entirely and determine production abroad if the market is to be served effectively. Another governmental factor in channel selection is the nature of any existing international business promotional program. Although governments tend not to promote imports, it may be that when such promotion is performed it is approved selectively and certain products are excluded (Albaum et al 2005).

Market competition is made possible by freedom of entrepreneurs to enter markets in which they see opportunities for profit. Therefore, “entrepreneurial activity is possible only to the extent that no resource monopoly obstacles exist to block entry” (Kirzner, 1997). Findings of internationalization studies indicate that managers’ perceptions of domestic environments explain significant portions of firms’ internationalization pace and performance (Zahra et al., 1997). Thus we formulate the following hypothesis:

H2: Unfavorable government related issues will be positively associated with the speed of internationalization.

H2-a: Unfavorable regulatory barriers will be positively associated with the speed of internationalization

H2-b: Unfavorable administrative barriers will be positively associated with the speed of internationalization

3.1.2 Control Variables

Firm size and Age

Reuber and Fischer's (1997) research on SME internationalization resulted in findings that neither firm size nor firm age, directly and significantly, related to internationalization. However, firm size is positively and significantly correlated with the measure of the team's international selling experience, which shows that larger SMEs are more likely, to have teams with international selling experience.

In early studies, Cavusgil (1984) found that when firm size is measured by number of employees, no relationship is found with export behavior, but a significant relationship exists when size is measured by annual sales. For this study we shall employ the use of employee number and age of the firm as control variables.

3.2 Entry Mode

For most entrepreneurs the most significant international marketing decision and critical first step they are likely to take is how they should enter foreign markets, as the commitments they make will affect every aspect of their business for many years ahead (Benito & Welch, 1994). There is, however, no ideal market entry strategy and different market entry methods might be adopted by different firms entering the same market and/or by the same firm in different markets. Operating modes have been considered a very important way of assessing the pattern of internationalization involved.

Once a company starts in international business it will gradually change its entry mode decisions in a fairly predictable fashion. According to Welch and Luostarinen (1993), Nordic studies indicate that as companies increase their level of international involvement there is a tendency for them to change in the direction of increased commitment. Increasingly, they will choose entry modes that provide greater control over foreign marketing operations (Erramilli & Rao, 1993). But to gain greater control, the company will have to commit more resources to foreign markets and thereby assume greater (market, political and other) risks. Growing confidence in its ability to compete abroad generates progressive lifts in the company's trade-off between control and risk in favor of control. Consequently, the evolving international company becomes more willing to enter foreign target countries as an equity investor (Root, 1994). This leads us to the following Proposition:

Proposition 1: When Kenyan SMEs choose a mode of entry into foreign markets, they will first choose a mode that has a lower commitment level (e.g. export) and then gradually improve to a high commitment level of entry (e.g. FDI).

3.3 Market Selection

The most important choice in any entry strategy is the selection of the foreign markets that will become the export destinations (Sarkar and Cavusgil, 1996). As the competition for international markets becomes more intense, firms must evaluate their options carefully. According to Root (1994), when choosing an export destination and a market entry strategy, managers must select (1) the export product and target market; (2) their goals for the target market; (3) the entry mode to penetrate the market; and (4) the control system to monitor export performance. Some markets may be regarded as more favorable than others because the managers, as decision-maker, are influenced by their subjective perception of how distant the alternatives seem.

Research on export development has often used a transactional cost approach or an eclectic framework (Erramilli and Rao, 1993). However, an increasing number of researchers have sought to explain export development from a psychic distance perspective (Brouthers and Brouthers, 2001) because this concept helps to capture decision-makers' perceptions of business and cultural differences between the exporter and the target market.

Firms often start by exporting to psychically close markets before they enter more physically distant markets (Bilkey and Tesar, 1977). As firms gain experience in exporting and their operations include more distant countries, psychic distance should decline (Grisprud, 1990), leading to expanded export opportunities. However, involvement in distant markets requires considerable learning effort, which increases as the psychic distance to the target markets gets larger (Keegan, 1979). It has been postulated that psychic distance affects a firm's choice of its foreign market destination and entry strategy because managers prefer trade with markets that they perceive to be closer. When the psychic distance is large, firms first adopt less expensive and less involved market entry strategies, such as export, and advance to more complex entry strategies, such as foreign direct investment, as the psychic distance decreases (Anderson and Coughlan, 1987).This leads to the second Proposition:

Proposition 2: Kenyan SMEs will choose to operate in 'psychically closer' markets first, before they move on to operate in 'psychically distant' markets.

Chapter 4 Methodology

This chapter will explain the research methods that were utilized and how the relevant data was identified, operationalized and collected. In the end of the chapter, the final sample will be presented for testing.

A research design is the logic that links the data to be collected and the conclusions to be drawn to the initial questions of a study (Yin, 1989). Choice of methodology thus, depends on the research questions and the objectives of the study. The purposes of social research may be organized into three groups based on whether the researcher is trying to accomplish, explore a new topic, describe social phenomena, or explain why something occurs (Neuman, 1997). Studies may have multiple purposes (e.g. both to explore and describe), but one purpose is usually dominant. The objective of this study is to describe the process of internationalization of Kenyan SMEs i.e. find out if the firms is inclined to traditional perspective or rapid internationalization perspective. Even though there has in the last decades been some studies on the internationalization process of SMEs most research conducted in the field of globalization are mainly focused on large multinational companies usually originating from large countries. There still seems to exist a gap in the literature when it comes to explaining the rapid internationalization of SMEs in particular in developing countries like Kenya. The main focus of this thesis is to identify which factors determine a firm's speed of internationalization. The process of internationalization is identified as having three main dimensions, that is, international market selection and the choice of foreign operation mode and speed of internationalization.

This paper utilizes a research approach that can be described as hypothetical deductive. Hypothetical deductive methods can be briefly described in four main steps. First, a research question with testable hypotheses is established. Second, predictions from the hypotheses are formulated. Third, in order to test the predictions, experiments or empirical analysis are employed. Fourth, if the experiments show that the predictions are correct, then the hypotheses are confirmed, if not then the hypotheses are rejected

4.1 Survey Implementation

Questionnaires were sent to over 200 SMEs in Kenya that engage in foreign business operations. The questionnaires stated the purpose and objectives of the research. If they decided to participate, they were asked to complete the questionnaire and return it. The questionnaires were distributed only to the members in management team with the assumption that they have an overall understanding of business operations. They were also provided with contact information for any questions they might have regarding the survey in the survey instrument.

The respondents were asked to answer each question in full and return the surveys directly to the person delivering the questionnaire. Each respondent was assured of confidentiality of individual responses. Among the questionnaires that were distributed, only 91 questionnaires were returned. 82 of them were valid, and this accounts for an overall response rate of 41 percent. Answers were later exported directly SPSS and analyzed.

Table 3: Information on Data Collection

Total questionnaires sent	Total questionnaires received	Total of valid questionnaires	Response rate
200	91	82	41%

4.2 Operationalization of Variables

4.2.1 Dependent Variables

Internationalization Speed

Internationalization Speed is described the length of time that has elapsed between the year the firm was founded and the year of its first foreign operation/entry i.e. the first time a firm commits to foreign markets entry from the date of the firm´s establishment. The internationalization speed is measured as the number of years since firm foundation to initial entry into foreign markets. It was summarized by prior study (Reuber & Fischer (1997), & Lindquist (1997).

Mode of Entry

The foreign market entry form of firms refers to the method used by a firm to establish a business in a foreign market. Consideration is given to the development of operations in individual countries and according to the level of risk, control and resource commitment; five stages were used to devaluate the data: 1) Indirect exporting, 2) Direct exporting, 3) Licensing, 4) Joint venture, 5) Wholly owned subsidiary. These sequence of stages, are known as the establishment chain. The choice of foreign market entry of Kenyan SMEs including the establishment chain that represents the respondents' firm entry mode and the time for the related entry mode were measured.

Indirect exporting refers to sales of a firm's products to a domestic customer, which in turn exports the product in either its original form or modified form. Direct exporting refers to product sales to a customer, either distributor or end users, located outside the firm's home country. Licensing refers to transactions in which a firm (called licensor) sells the rights to use its intellectual property to other firms (called licensee) in return for a fee. Joint venture refers to a special strategic alliance created when two or more firms agree to work together and jointly own a separate firm to promote mutual interests. Wholly owned subsidiary refers to building a wholly owned subsidiary in a foreign market.

The measure of the operation mode dimension was adopted from Manolova et al. (2002). It measures whether or not a firm was engaged in any of the following activities: direct export; indirect export; Licensing; joint venture and Investment through wholly owned subsidiary.

Psychic Distance

Refers to the sum of the factors preventing the flow of information from and to the market and these are factors such as differences in language, education, business practice, culture and industrial development. Firms tend to enter markets with successively greater psychic distance, in most cases greater geographical distance. Psychic distance is a multifaceted construct that is difficult to capture (O'Grady and Lane, 1996). The measure of the operation mode dimension was adopted from (Martin Ogutu et al, 2009). In his text he indicated several countries that are psychically closer to Kenya and the ones that are not to basing his argument on seven elements which included, geographical location, language, education, political system, colonial ties, religion and economic and industrial development.

4.2.2 Independent Variables

International Outlook

This concept refers to certain characteristics specific to the decision makers, such as, previous international experience, time spent living/studying abroad and international business knowledge (Lloyd-Reason & Mughan, 2002). This variable was planned to form a construct out of seven items in the questionnaire. These variables were categorized into three parts; International Work experience; International Background and International Business Knowledge. Respondents had to indicate on a 5-point scale (1 = Not at all, 3 = Not sure, 5 = Very much) the extent they evaluate the international outlook of the management team. Internation work experience variable was tested using only one item that asked whether the key decision makers of the firm had significant work experience before they began working fort he firm. International Background and International business knowledge was categorized using 3 items each. The questions on international background tested on the extent of the key decision makers living, foreign education and travel/visiting/tour experience. The one for International business knowledge asked whether the key decision makers have significant international management, legislation and marketing knowledge.

Unfavorable Government Conditions

This refers to the absence of government coercion or constraint on the production, distribution or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself. Unfavorable government conditions variable was categorized into two parts; Regulatory Barriers -RB; and Administrative Barriers -AB. Regulatory Barriers had 4 items, and Administrative Barriers had 5 items. The variable was investigated by asking the respondents about key decision makers' perception regarding all these conditions i.e. how the barriers contributed to their going out to foreign markets. This measure was extracted from indices used in the "EFW: 2002 Annual Report" and the "Index of Economic Freedom".

4.2.3 Control Variables

For control variables, the age of the firm measured in years (The number of years the firm has been operating both domestically and internationally since it was founded) and the size of the firm measured by the number of employees working for the firm was used. These measures were adopted from an article by (Rhee et al 2008).

Chapter 5 Results and Analysis

5.1 Speed of Internationalization

This chapter will give an analysis of the valid questionnaires. First, for the speed of internationalization model, factor analysis will be utilized in order to examine if any of the independent variables should be excluded for the final constructs in the analysis. The constructs will then be tested for reliability using the Cronbach's alpha test. The test will be completed to ascertain the relationships among the independent variables and dependent variable using simple regression analysis to test the hypotheses in section 3.

5.1.1 Factor Analysis

Factor analysis attempts to identify underlying variables, or factors that explain the pattern of correlations within at set of observed variables. Factor analysis is also used in data reduction to identify a small number of factors that explain most of the variance that is observed in a much larger number of variables. The purpose of data reduction is to remove redundant (or highly correlated) variables from the data. In this analysis, principal component analysis was used, which is similar, more reliable and conceptually less complex than "traditional" factor analysis. Principal component analysis is concerned with establishing what kind of linear components exist in the data and how each variable might contribute to that component.

First I have presented a Factor Analysis results which was performed on thirty one items. The principal component analysis of all the 31 items yielded four factors based on Kaiser's criterion of retaining eigenvalues greater than 1.0. This leads to the conclusion that only four factors should be retained for further investigation. By utilizing factor rotation, one has established that there are four constructs that consists of more than one variable.

Table 4: Summary of Factor Analysis of the Variables

Rotated Component Matrix[a]				
Component				
	1	**2**	**3**	**4**
Customs rules and procedures	.835			
Trade regulations	.798			
Weak domestic institutions	.754			
Domestic regulations	.727			
Attitude of regulatory officials		.858		
Poor administrative practices		.846		
Black market		.809		
International Mgt. knowledge			.834	
International legislation knowledge			.797	
International marketing knowledge			.775	
Foreign education				.848
International living experience				.806
International travel/visit/tour				.708
	7.787	2.900	2.139	1.757
	39.649	14.767	10.890	8.948

Extraction Method: Principal Axis Factoring
Rotation Method: Varimax
A Rotation converged in 6 iterations

5.1.2 Reliability Test

Before concluding that the independent variables and dependent variable constructs can be founded by the four factors found in the rotated component matrix, one should also measure the reliability of these factors. One way of testing the consistency between the items in each factor is through the Cronbach's alpha test. The Cronbach's alpha is based on the average inter-item correlation. A scale with a Cronbach's alpha higher than 0.6 is required in order to create a reliable construct of multiple variables. For the detected factors the reliability analysis was done (Table 3). The results of reliability at the individual construct level showed that all the scale items for the constructs loaded reasonably on their respective factors with their Cronbach's alpha each being greater than 0.7. All of the reliability coefficients therefore met the generally accepted norm of 0.6 and above to be regarded as reliable measures.

Table 5: Measurement and Reliability Estimates of the Factors

Independent Variable	**Cronbach's Alpha**	
Domestic regulations	.822	
Customs rules and procedures	.786	
Trade regulations	.764	
Weak domestic institutions	.808	**.839**
Attitude of regulatory officials	.797	
Poor administrative practices	.846	
Black market	.813	**.872**
International Mgt. knowledge	.771	
International legislation knowledge	.658	
International marketing knowledge	.773	**.807**
International living experience	.664	
Foreign education	.690	
International travel/visit/tour	.706	**.767**

5.1.3 Correlation Analysis

For a good factor analysis, variables should be correlated to some extent, but they should not be perfectly correlated. The correlation matrix between the variables was therefore scanned in order to see if there was any correlations coefficient above 0.9. None of these were found. Secondly, its advisable that several correlations should be at least above 0.3. One can also see from the correlation matrix that this requirement was also satisfied. Considering that the variables are to some degree correlated, but not particularly large, one did not have to consider eliminating any of the variables from the analysis at this stage. The results showed that there was significant relationship between these variables.

Table 6: Correlation Analysis of the Variables

	Speed	Int. Work Experience	Regulatory Barriers	Adm Barriers	Int. Business Knowledge	Int. Background
	1					
International Work Experience	-.851**	1				
Regulatory Barriers	-.481**	.529**	1			
Administrative barriers	-.823**	.771**	.515**	1		
International Business Knowledge	-.420**	.536**	.382**	.375**	1	
International Background	-.297**	.359**	.264*	.199	.432**	1

*** Correlation is significant at the .05 level (2-tailed)**
**** Correlation is significant at the .001 level (2-tailed)**

5.1.4 Regression Analysis

A regression describes and evaluates the relationships between a given dependent variable and one or more independent variables. The statistical method used to test the effect of the independent variables on the speed of Internationalization was regression analysis. The model provided the result of the regression analysis, where five variables were tested. These included, International Work Experience, International Background, International Business Knowledge, Regulatory barriers and Administrative barriers. The results show that only two variables, International work experience and Administrative barriers are significant.

Table 7-1: Test for Effects of variables on speed of Internationalization

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	10.777	.756		14.254	.000		
	Age	.030	.027	.068	1.115	.268	.734	1.362
	Number of Employees	-.039	.134	-.017	-.293	.770	.809	1.236
	Regulatory Barriers	.024	.160	.010	.152	.880	.650	1.539
	Administrative Barriers	**-.838**	.201	-.381	-4.164	**.000**	.324	3.090
	International Business Knowledge	.091	.174	.034	.520	.604	.633	1.580
	International Background	-.104	.163	-.039	-.635	.528	.730	1.370
	International Work Experience	**-1.068**	.181	-.551	-5.910	**.000**	.313	3.199

a. Dependent Variable: Speed

Multicollinearity among the IV was assessed by examining the VIF. Because VIF is lower than 4, it means that there is no problem with multicollinearity in this analysis. Moreover, R2 equals 0.782 which means that our regression model has 78.2% explanation power.

Table 7-2: Regression Analysis

Model	R	R Square	Adjusted R Square	Change Statistics R Square Change	F Change	df1	df2	Sig. F Change
1	.894[a]	.799	.780	.799	42.060	7	74	.000

5.2 Entry Mode Selection

For entry mode choice, it was assumed that when Kenyan SMEs choose a foreign market mode, they follow a gradual increase in commitment pattern. Findings from case observation show that 59% of observation cases supported traditional perspective and 26% of the case observation is in favor of the INV perspective. Results for 16% of the firms could not be determind.

Table 8: Entry Mode Results

	No. of firms	Total Observation	Percentage
Support the concept of gradually increasing Commitment	48	82	59%
Not supporting the concept of gradually increasing commitment	21	82	26%
Not known	13	82	16%

5.3 Market Selection

For the Psychic distance, it was assumed that when Kenyan firms are expanding their operations abroad, they would start by psychically closer markets first and proceed to psychically distant markets. The findings from the case observation show that 68.3% of observation cases supported traditional perspective and 24% of the cases are in favor of the INV perspective. Results for 7% of the firms could not be determined.

Table 9: Market Selection Observation Results

	No. of firms	Total Observation	Percentage
Support the concept of gradually moving psychically	56	82	68.3%
Not supporting the concept of moving psychically	20	82	24%
Not known	6	82	7%

Table 10: Summary of Test Results

HYPOTHESES	TEST
H1: The magnitude of international outlook of key decision makers will have a positive effect on speed of internationalization	
H1-a: The larger the magnitude of foreign work experience of key-decision makers, the faster the internationalization speed.	Accepted
H1-b: The larger the magnitude of international background of Key-decision makers, the faster the internationalization speed.	Rejected
H1-c: The larger the magnitude of international business knowledge of Key decision makers, the faster the internationalization speed	Rejected
H2: unfavorable government policies/government related issues will be positively associated with the speed of internationalization.	
H2-a: Unfavorable regulatory barriers will be positively associated with the speed of internationalization	Rejected
H2-b: Unfavorable administrative barriers will be positively associated with the speed of internationalization	Accepted
PROPOSITIONS	
Proposition 1: When Kenyan SMEs choose a mode of entry into foreign markets, they will first choose a mode that has a lower commitment level (e.g. export) and then gradually improve to a high commitment level of entry (e.g. FDI).	Accepted
Proposition 2: Kenyan SMEs will choose to operate in 'psychically closer' markets first, before they move on to operate in 'psychically distant' markets.	Accepted

Chapter 6: Implications and Future Research

6.1 Concluding Remarks

This Thesis sought to find out the internationalization perspective that is followed by SMEs in Kenya. When these firms internationalize, do they follow traditional internationalization perspective or new perspective? One critical issue differentiating the two perspectives is speed of internationalization. The New perspective is of the idea that firms internationalize at a faster rate as compared to the traditional perspective that emphasizes that firms' internationalization process is a gradual slower process as the firms acquire experiential knowledge. The study sought to find out the determining factors of speed of internationalization of Kenyan SMEs.

Administrative barriers was found to be one of the major factors that cause Kenyan SMEs to internationalize at a faster pace. As these companies experience poor administrative practices like corruption of public officials, they opt for greener pastures in other places. Other regions would provide better conducive environment for these companies and would result in the companies operating their maximizing on their profits. Poor administrative practices become a major concern as it would lead to delays in daily routines and other inconveniences and this would have a direct impact on a company's performance or profit. The companies go abroad with the hope of increasing on their profits and avoiding incurring unplanned losses in their businesses.

International Work experience of key decision makers has a crucial role in the process of internationalization of Kenyan SMEs. This is an important tenet in the Traditional perspective. The traditional perspective emphasizes the importance of experience as a regulator of speed of internationalization. Eriksson et al. (1997) demonstrated that experience lowers the perception of the management regarding the cost of further international expansion thereby increasing the speed of resource commitments to foreign markets. Key decision makers are able to start new businesses rapidly owing to their experiences. The driving forces of internationalization resulted in key decision makers' receptiveness to available international opportunities.

At this point it would be crucial to distinguish between two different types of knowledge – the objective and experiential knowledge. Whereas the objective knowledge can be taught, the experiential knowledge can be acquired only through personal experience. It is this knowledge that gives the managers the ability to perceive and formulate concrete opportunities. Knowledge can also be divided into general and market specific knowledge. General knowledge doesn't depend on the geographical location of an activity. According to the results, it would be safe to conclude that Kenyan managers seem to value experiential knowledge much more than they do, objective knowledge thus the insignificance of International Background variable and International Business Knowledge as all these can be acquired through learning and not necessarily through practical operations.

When Kenyan firms choose an entry mode, they choose one with low commitment first before they proceed to ones with high commitment. This can be reflected from the results. This varies with leapfrogging that we see in International New Ventures. Again we see the effect of knowledge here as managers learn more of the outside market, they become more willing to commit resources hence a gradual increase in the commitment level. Same applies to Psychic distance When Kenyan firms internationalize, they start from psychically closer markets before proceeding to psychically distant ones and this is contrary to INV perspective which suggests that the managers will only take advantage of foreign market advantage but they don´t really consider the concept of psychic distance. The case observation of the sample suggest that psychic distance is, in fact, an influential factor. Managers would be easily willing to internationalize and are more comfortable with the internationalization process when the psychic distance is small.

6.2 Implications of the Results

The results of this study can have important implications for SME managers in Kenya and other countries that heavily rely on the SME sector. Having noted its impact in the development of the economy, most governments should strive to improve on the sector. A number of respondents were concerned at the lack of enthusiasm showed by the government regarding certain issues that they could handle. The government should be aware of the loss encountered as a result of these poor practices and work toward improving on the areas for future development of the country.

Another important implication of the study for practitioners is that they need to constantly evaluate different elements related to internationalization.

Especially crucial are the skills, competencies, and management know-how the decision makers needs to develop in order to be successful in the process of internationalization.

SMEs should be encouraged to internationalize more especially the ones experiencing domestic difficulties. Managers should take note of the fact that internationalization is a suitable growth strategy. Factors that contribute to internationalization also contribute to growth; internationalization and growth are closely associated. In order to fulfill the objective of internationalization, the decision makers should pay attention to factors that influence the whole process.

6.3 Suggestions for Future Research

We acknowledge limitations of the current study, which may help scholars in developing future research. First, although this study identified two distinctive variables that determine speed of internationalization of Kenyan SMEs there are likely to be additional relevant variables that could lead to rapid internationalization of SMEs in Kenya. Some of the factors that I thought were important could not be used in statistical analysis. Future research should try and investigate additional factors in the context of the Kenyan Market.

Second, the research could be improved by going a notch higher to test the performances of such SMEs and then comparing them with the performance of firms that do not internationalize or other firms in the developed countries.

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INTERNATIONALIZATION PROCESS OF SMALL AND MEDIUM SIZED ENTERPRISES IN KENYA

QUESTIONNAIRE

Dear respondents,

My name is George Juma and I am a graduate student at Pukyong National University in South Korea. For my Master's thesis, I am examining whether Kenyan Small and Medium Enterprises follow a traditional perspective in their Internationalization behavior or some other new perspectives currently being displayed by many other countries. As you are in the management team, I would like to invite you to participate in this research study by completing the attached questionnaire.

The questionnaire is very brief and will take about five minutes to fill out. Instructions for completing the questionnaire can be found on the form itself. We will appreciate if you would complete the questionnaire and return it as soon as possible.

We look forward to receiving your answers for each item.

Please be assured that all information you provide will be kept strictly confidential and will not be used for anything other than academic research purposes. Additionally, do not hesitate to contact us through the contact information at the bottom of this page should there be any questions or concerns about the questionnaire or any aspect of the study. Additionally, should you like to see the results of the study I would be happy to send that to you as well. Your participation represents a valuable contribution to SME research, and we thank you again for your cooperation.

Sincerely,

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QUESTIONNAIRE

Please tick or fill in the blanks in the following questions

A. General Questions

No.	QUESTION	
1	When was the firm founded?	…………………. year
2	What is (are) the main product(s) of the firm?	Raw Materials ( ) Major Equipment ( ) Accessory Equipment ( ) Component Part ( ) Other (………………………….......)
3	What is your designation in the company?	CEO ( ) Finance manager ( ) General Manager ( ) Operations Manager ( ) Other (………………………….......)
4	What is the type of industry your firm operates in?	Manufacturing ( ) Agricultural ( ) Tourism ( ) IT ( ) Other (………………………….......)
5	Approximately how many employees work for the company?	Less than 10 ( ) Between 10 - 50 ( ) Between 50 - 100 ( ) Between 100 - 150 ( ) Over 150 ( )
6	How many members are in the Management Team?	Less than 3 ( ) Between 3 - 6 ( ) Between 6 - 9 ( ) Between 9 - 12 More than 12 ( )
7	Approximately what percentage of your sales volume is exported?	Less than 10% ( ) Between 10 – 25% ( ) Between 25– 40% ( ) Between 40 – 55% ( ) Over 55% ( )
8	Approximately what percentage of your turnover is acquired from your international activities?	Less than 10% ( ) Between 10 – 25% ( ) Between 25 – 40% ( ) Between 40 – 55% ( ) Over 55% ( )

B. The following questions are related to entry mode choices when your firm enters into the foreign market.

Foreign market entry mode refers to the method firms use to establish business in foreign markets. In this survey, the method used has been divided into:
1. Direct exporting
2. Indirect exporting
3. Licensing
4. Joint venture and,
5. Wholly owned subsidiary.
Please answer the following with respect to foreign market entry of your firm.

9. First country where your firm entered is .....······.······...··················...···

10. The most active foreign market (country) of your current business is

....

11. In the following table, some basic information is asked about your firm's entry mode in the most active market (mentioned above). Please circle the entry modes that your firm have operated and fill in the time for the related entry mode.

Entry mode		Year
Exporting	Direct ( )	
	Indirect ( )	
Contract	Licensing ( )	
Investment	Joint venture ( )	
	Wholly owned ( )	

12. The main business mode of your firm in the most active foreign country is
....

....

C. The following questions are related to the firm's behavior towards international opportunities.

13. When did the company start its international operations? ………… …………………….

14. How do you select target market?

On the basis of market research	( )
On the basis of information received from relatives or friends	( )
We follow our clients	( )
On the basis of strategic decision	( )
Other ………………………………………………………………..	

15. Which one(s) of the following do you regard as a major barrier toward your firm's internationalization?

Geographical distance	( )
Cultural differences	( )
Tariffs	( )
Differences in language	( )
Level of education	( )
Political system	( )
Size of the market	( )
Transport cost	( )
Lack of International experience	( )
Other ………………………………………………………………..	

D. The following questions are about the International outlook of key decision makers of the firm. Please indicate the extent to which the following statements describe the key decision makers of the company. The key decision makers …….

No.		Not at all				Very Much
	Work Experience					
16	Had significant international work experience before the firm began its international operation	1	2	3	4	5
	International Background					
17	Had significant international living experience before the firm began its international operation	1	2	3	4	5
18	Had acquired significant level of foreign education before the firm began its international operation	1	2	3	4	5
19	Had significant international travel/visiting/tour experience before the firm began its international operation	1	2	3	4	5
	International Business Knowledge					
20	Have significant international management Knowledge	1	2	3	4	5
21	Have significant international legislation knowledge	1	2	3	4	5
22	Have significant international marketing knowledge	1	2	3	4	5

E. Please indicate how many social networks key decision makers rely on to gain access to information necessary for internationalization

No.		Not at all				Very Much
	Personal Relationship					
23	Family, relatives, and personal friends of key decision makers	1	2	3	4	5
24	Family, relatives, and personal friends of general staff	1	2	3	4	5
25	Past work colleagues (e.g. employers, co−workers)	1	2	3	4	5
26	Fellow members in participating clubs, associations, unions	1	2	3	4	5
27	Past industrial business contacts in domestic market	1	2	3	4	5
28	Past industrial business contacts in foreign market	1	2	3	4	5

	Business Relationship					
29	Current business partners of the company	1	2	3	4	5
30	Agents and intermediaries	1	2	3	4	5
31	Foreign trade and Industrial associates	1	2	3	4	5
32	Past work and business contacts of general staff	1	2	3	4	5
33	Local trade and industrial associations	1	2	3	4	5

F. The following questions are about government related issues. Please indicate the extent to which they affect the company's internationalization process according to your opinion.

No.		Not at all				Very Much
	Regulatory barriers					
34	Domestic regulations	1	2	3	4	5
35	Customs rules and procedures	1	2	3	4	5
36	Trade regulations	1	2	3	4	5
37	Weak domestic institutions (e.g. legal and judicial systems)	1	2	3	4	5
	Financial barriers					
38	Taxes on international trade	1	2	3	4	5
39	Internal taxes or charge	1	2	3	4	5
40	Limited access to capital and credit	1	2	3	4	5
41	Rate of inflation	1	2	3	4	5
42	Price controls	1	2	3	4	5
	Administrative barriers					
43	Policy implementation procedures	1	2	3	4	5
44	Attitude and behavior of regulatory authorities and public officials	1	2	3	4	5
45	Poor administrative practices promoting corruption and discrimination	1	2	3	4	5
46	Lack of government incentives	1	2	3	4	5
47	Black market	1	2	3	4	5