

**FACTORS INFLUENCING
INTERNATIONALIZATION OF SMALL AND
MEDIUM SIZED ENTERPRISES (SMEs): A CASE
STUDY OF HANDICRAFTS IN KENYA**

BY:

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DECLARATION

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

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

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DEDICATION

This research project is dedicated to the ever hardworking Handicraft traders all over the country for their contribution to Kenya's economic growth.

ABSTRACT

The global market is increasingly becoming popular and gaining importance as a base for internationally active organizations as well as those intending to go international. Previous studies have been carried out on factors influencing internationalization of SMEs however no known study has been done on internationalization of the handicraft sector in Kenya. This has hence created a knowledge gap as there is lack of information on the factors that influence internationalization of this sector. There is lack of proper knowledge on the challenges that the handicraft traders engaging in international businesses are faced with. The role of the government and more specifically of organizations such as Export Promotion Council (EPC) and African Growth and Opportunity Act (AGOA) in promoting internationalization of the sector is therefore examined in this research project. The target population being 196 registered handicraft traders in Kenya, a sample size of 40 handicraft companies based in Nairobi was used. Simple random sampling was used to sample the population. The data collection instrument used was questionnaires which contained both open ended and closed ended questions. The study employed both descriptive research design and content analysis to analyze the data. The study revealed that a majority of handicraft businesses are SMEs by virtue of being individually owned, having a business annual turnover of below Kshs 5million and employing less than 10 employees. Despite operating SMEs many handicraft traders engage in international trade and their exports markets are mainly to Africa, Europe and America as there is a huge demand for the Kenyan handicrafts. These traders however are faced with a myriad of challenges which range from lack of market information to high shipping costs and lack of financial capital. The traders give suggestions on what needs to be done in order for them to successfully conquer the international markets with the suggestions ranging from participation in training programs to reduction of the cost of international business. The study recommends that the role of government in promoting this sector which is a major contributor of revenue to the Kenyan economy and job creation be relooked at with an aim of giving the handicraft traders the much needed support.

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LIST OF ABBREVIATIONS

AGOA	African Growth Opportunity Act
CBS	Central Bureau of Statistics
CEG	Centre for Economic Growth
CEOs	Chief Executive Officers
EPC	Export Promotion Council
ERS	Economic Recovery Strategy
FDIs	Foreign Direct Investments
ITC	International Trade Centre
KREP	Kenya Rural Enterprise Programme
KSHS	Kenya Shillings
MNCs	Multi National Corporations
NES	National Export Strategy
OECD	Organization for Economic Cooperation and Development
SMEs	Small and Medium Sized Enterprises
UNESCO	United Nations Educational Scientific and Cultural Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

International businesses are those that operate in the international business arena for profit. Internationalization is a major dimension of the growth of a firm (Pend & Delios, 2006) Market liberalization and digitization are encouraging SMEs to operate beyond their national borders and compete with each other in foreign countries and new regions (Barkema, Baum & Mannix, 2002). Issues related to globalization, internationalization and liberalization have received a great deal of attention in recent research. A study commissioned by (OECD) (1997) on the globalization of SMEs, provides evidence from 18 member countries that suggests SMEs are internationalizing more rapidly than in the past and provides evidence of small firms that became involved in international business activities almost from inception. Generally most of these SMEs are generating earnings in the global market more than in home countries.

In Kenya, the handicraft industry falls under Small and Medium enterprises (SMEs). These enterprises cut across all sectors of Kenya's economy and provide a source of employment, income generation and poverty reduction. All firms are influenced by organizational and environmental factors. This set of factors make firms consider the option of operating outside their home market. Organizational factors arise from within the firm and environmental factors arise from outside the firm's control (Aharoni, 1966) All firms grow from stage to stage while expanding from one market to another and handicraft businesses also follow this process of internationalization by expanding to other countries so as to increase their involvement. With globalization

and growth in international trade, markets have changed in recent decades with new commodities like handicrafts trading in world markets. Statistics from the Ministry of East African Affairs, Commerce and Tourism indicates that handicraft exports have been increasing steadily over the years with sales growing from 556 million in 2004 to 580 million in 2006 and 620 million in 2009 (EPC, 2010).

Globalization has linked continents and many developing countries are increasingly looking at handicrafts trade as a means of foreign exchange. A number of SMEs which are run by youth, women and men are engaged in selling handicrafts locally mainly to tourists, others have set up shops in foreign countries and others export selling on order basis. Many handicraft export traders work closely with the NGOs and the government through the Export Promotion Council and the Ministry of East African Affairs, Commerce and Tourism. The main markets for Kenyan handicrafts are found in USA, Europe, Japan and the Middle East.

1.1.1 Concept of International Business

International business consists of business transactions between parties from more than one country. Examples of International Business transactions include buying materials in one country and shipping them to another for processing or assembly, shipping finished products from one country to another for retail sale, building a plant in a foreign country to capitalise on lower labour costs, or borrowing money from a bank in one country to finance operations in another. The parties involved in such transactions may include private individuals, individual companies and or government agencies. (Griffin & Pustay, 2010)

While international business has been around for centuries, it has gained much speed and complexity over the past two decades. Firms seek international market opportunities more today than ever before, touching the lives of billions of people around the world. When pursuing International Business, an organization must decide on one of the suitable modes of operation which include; merchandise exports and imports, service exports and imports, foreign direct investments and portfolio investments. (Daniels, Radebaugh & Sullivan, 2013)

1.2.1 Concept of Internationalization

Internationalization is a process in which a firm gradually increases its involvement and commitment to international markets. (Johansson & Vahlne ,1967) International marketing is the performance of business activities that direct the flow of a company's goods and services to consumers or users in more than one nation for a profit. (Ghauri & Cateora, 2009). Internationalization is the process of increasing involvement in international markets. The decision to go international is dynamic, and it is not susceptible to a one size fits all approach. Nevertheless, companies tend to follow certain patterns as they move beyond their own borders. During past decades, with dramatic development of economy and technology, international trade and internationalization continue to be a trend more and more popular to enterprises. This phenomenon has many reasons, such as the reduced barriers that make it easy for firms to access new markets, the firms continuous pursuit of cheaper resource, the increasing customer requirements in the overseas market is also a pull factor for firms to launch their products or service to the foreign market (Doole and Loowe, 2008)

According to Masum & Fernandez (2008), internationalization is the process of availing goods and services to markets outside the country of origin or the country where the goods are manufactured or the location of the company. Companies go international with an aim to compete for resources that are limited while depending on the global economy to provide them with the necessary market for their products. Internationalization organizations must be in a position to deal with the rules and regulations that have been put in place in foreign countries that they operate, in addition showing the ability to deal with fluctuation of the currency and conflicting policies. Organisations while going international, also need to consider their own internal structure. The role of governments of other countries that the organization needs to operate in and the mode of operation in the new foreign market also needs to be considered before internationalization undertaking. Similarly, political situations of the country and labour availability should also be considered. (Wells, 2001)

The Uppsala Model achieved more attention and seems to be the more important one. According to Jan Johanson and Jan-Eric Vahlne,(1967), internationalization of a firm is quite a slow process in which the firm gradually increases its international involvement. Johanson and Vahlne believed that “internationalization is a product of a series of incremental decisions” and that knowledge about the foreign market and the firm’s commitment depend on each other. A lack of knowledge is an important obstacle in the development of international operations. Due to that the internationalization process in their model evolves from interplay between the development of knowledge about the foreign markets and operations, and an increasing commitment of resources to those markets. The main structure of the model is given by the distinction of the four internationalization variables used in the

model into state and change aspects. The state aspects are market knowledge and market commitment. The change aspects are commitment decisions and current activities.

Internationalization is the extent to which a firm is involved in international business. It includes exporting, foreign subsidiaries, shares ownership by foreigners and appointment of foreigners in the organization structure. Bartlett and Ghoshal (2000) have identified two main motivations for firms to internationalize: traditional motivations and emerging motivations. Traditional motivations would include the need to secure key supplies, especially minerals, energy and scarce raw material resources; an organization's technology or their brand recognition that gives them some competitive advantage

Bartlett and Ghoshal (2000) further outlined the emerging motivations for firm internationalization. In many cases, the new motivations were driven by a set of economic, technological, and social developments that made internationalization essential for a company to survive in particular businesses. Expanding into international markets is often used by firms that seek rapid growth. As a prerequisite, Bradley and O'Reagan (2001) asserted that SMEs should concentrate on the product-market segment, either local or abroad, where the competencies of the firm provide competitive advantage.

1.1.3 Small and Medium Sized Enterprises (SMEs) in Kenya

SMEs are defined differently by different institutions. In Kenya, the following definitions of the SME sector are applied. Microenterprises are categorized with 1-10

full time employees with turnover ranging between Ksh. 0-5 million. Small enterprises are categorized with 11-50 full time employees with turnover ranging between Ksh 5-50 million. Medium enterprises are categorized with 51-100 full time employees with a turnover ranging between Ksh. 51 million – 1 billion (Kenya, 2011). Regardless of the quantitative definition, it is agreed by virtually all stakeholders in this market that SMEs in Kenya are the ‘missing middle’. Their size and credit demand have outgrown capacity of microfinance institutions, which offer small, short loans via group lending methodologies, while the capacity of the SME risk profile combined with lenders’ lack of sophisticated risk assessment techniques makes many of them appear undesirable as credit customers for business banking (Kenya, 2011).

The small and micro enterprises (SMEs) play an important role in the Kenyan Economy. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Central Bureau of Statistics, Centre for Economic Growth, K- Rep Holdings (CBS/CEG/KREP, 1999) notes that the growth of enterprises from micro to small, small to medium and then medium to large means , employment creation, increase in revenues and capital base. The economic impact of SMEs can be measured by their contribution to output, employment, income, investment, exports and other economic indicators (Prasad, 2004). According to Kariuki (2010), the Kenyan SME sector is going through a transformation and businesses are venturing into new markets at a fast rate.

1.1.4 Handicraft Business in Kenya

In Kenya the production of handicrafts makes significant contribution to the national economy. Many types of Kenyan handicrafts are known around the world, but of all these crafts, jewellery, bags, basketry, wood and stone carving may be the most famous. According to Export Promotion Council (EPC) (2007), many terminologies have been used to describe the products in the industry. They include handicrafts, gift items, artisanal products, and curios among others. Of all these, the use of the term 'artisanal products' was adopted by the UNESCO/ITC International Symposium on 'Crafts and the International Market: Trade and Customs Codification'. Accordingly, artisanal products were defined as those that are produced by artisans, either completely by hand, or with the help of hand tools or even mechanical means, as long as the direct manual contribution of the artisan remains the most substantial component of the finished product.

Using raw materials from sustainable resources the special nature of artisanal products derives from their distinctive features, which can be utilitarian, aesthetic, creative, culturally attached, decorative, functional, religiously and socially symbolic and significant (Manila, 1997). Production of crafts in Kenya has over time undergone transition from being a cultural practice to commercial venture, which has quickly gained acceptance as a viable sector both locally and internationally. The traditional products which were produced as cultural activities grew from cottage industry and local consumption to commercial production for international markets.

However, it is still the cultural appeal that has remained one of the strongest international marketing gimmicks (EPC, 2007). Development of this sector is

articulated in various Government policy documents such as the Sessional Paper No. 2 Of 2005 on the Development of Micro and Small Enterprises discussed and adopted by Parliament in April 2005, the National Export Strategy (NES) 2003-2007, and the Economic Recovery Strategy (ERS) for Wealth and Employment Creation (2003-2007).

1.2 Research Problem

The global market is increasingly becoming popular and gaining importance as a market and a base for internationally active organisations as well as those intending to go international (Wells, 2001) Internationalization of Small and Medium Sized Enterprises like Handicrafts is mostly through exports or FDI's. SMEs face complexities and challenges expanding to foreign markets as these markets have different and unique operational and regulatory frame work. SMEs have organizational and environmental dependency; they are influenced by factors internal to the firm and external to the firm. They grow overtime and expand their operations to other markets; grow from stage to stage. Many theories have been proposed to explain the gradual growth of MNCs, but the most profound are Uppsala model and innovation related internationalization theories. These theories have faced criticism with the intention of understanding the relevance of the theories.

All the same SMEs in the Handicraft industry would want to pursue consumers who use their products as well as set up branches and affiliates in other markets so as to serve this other markets with their product innovations. Several authors have articulated that firms opt for foreign markets due to proactive motives and reactive motives. These motives relate to a generalized process of internationalization – ‘going

global' for any given firm. According to authors, there exist both internal and external factors which influence a firm to expand and operate in a foreign country.

Review of past empirical studies reveals that no study has been carried out on the internationalization of the handicraft sector in Kenya. Much emphasis has been on other type of export products especially in the agricultural sector. Njoroge (2006), Mburu (2007), Njuguna (2008) concentrated on strategies in export of agricultural products in Kenya. Other research studies done on internationalization of organizations include: Murimi (2012) did a study on internationalization of Small and Medium Sector Oil distributors in Kenya while Odhiambo (2012) studied factors influencing internationalization of operations of Kenol Kobil Kenya Company Limited.

Very few studies have been done on this topic of Factors influencing Internationalization of SMEs in Kenya and no study in particular on the case of internationalization of Handicraft businesses in Kenya. This is an area which Kenya is renowned for and the area needs to be encouraged to internationalize as there is great demand for Kenyan handicrafts abroad however the sector still lags behind. The research study answers the following questions; Which are the factors influencing internationalization of Handicraft SMEs in Kenya? And what barriers do the Kenyan Handicraft manufactures in Kenya encounter when expanding to foreign markets. This is with a view of encouraging internationalization of Kenyan handicrafts.

In realising the knowledge gap, the previous studies done on internationalization of SMEs have not focussed on the Handicraft sector which is a key sector in Kenya and

the role of the government in laying down concrete policies and programmes for encouraging SMEs particularly those in handicraft business to internationalize.

The Research Question therefore is: What are the factors influencing internationalization of Small and Medium Sized enterprises (SMEs): a case of Handicraft businesses in Kenya?

1.3 Research Objective.

The purpose of the study was to determine the factors that influence internationalization of Small and Medium Sized enterprises (SMEs): a case of Handicraft businesses in Kenya.

1.4 Value of the Study

To the players in the handicraft industry, the findings of this study provide valuable information on business strategies that enhance internationalization of handicraft businesses.

To the government, the findings of the study provide important information that could be useful while formulating policy decisions with an aim of providing an enabling environment that can help facilitate the internationalization of handicrafts SMEs in Kenya.

To academicians and researchers, the findings of this research project are a source of reference material for future research on other related topics; and will also help other academicians who undertake the same topic in their studies. The study also highlights other important relationships that require further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter focussed on theories of internationalization process models, reasons to internationalize, barriers to internationalization, change agents in internationalization and the role of Export Promotion Council (EPC) and African Growth and Opportunity Act (AGOA).

2.2 Theories of Internationalization Process Models

Early literature on internationalization behaviour concludes that the process involves a series of incremental ‘stages’ where firms gradually become involved in exporting and other forms of International business. As they do so, they commit greater resources to the foreign markets and target countries that are increasingly ‘physically’ distant. Although the number of stages differs, a common underlying assumption of the extent; stage’ model is that firms are well established in the domestic market prior to developing international strategies. Despite the continued support for this model, there is no congruence between theory and practice (Andersen, 1993

Very little has been done to relate business strategies being pursued by firms to their internationalization process. Melin (1992) has highlighted the limited attention that has been paid to the link between ‘internationalization theory’ and the strategy issues at both conceptual and practical levels. The absence of linkages is perhaps the most evident in relation to small firms strategies and internationalization. In some respects this situation is surprising , given that Ansoff (1965) identifies new market

development (i.e. internationalization) as a viable strategy for rapid small firm growth in his product – market expansion matrix, as an alternative to developing new product/services offerings for the domestic market.

However in other aspects the lack of attention is less remarkable and may be explained by a number of factors. First, much of the early literature characterizes small firms export behaviour as essentially unplanned and reactive, with firms responding to unsolicited orders or enquiries rather than pursuing proactive strategies (Bilkey and Tesar, 1967). Second, many of these contributions tend to regard international involvement as of secondary importance to domestic market activities and something that firms only consider once they have established a secure foothold in the home market. Thus domestic and international developments are often viewed as diverse strategic solitudes, rather than complementary strategies for firm growth. Third, the financial and human resource constraint of smaller firms are well documented, as in an absence of formal planning (Carson et al, 1995) This ‘resource poverty’ requires some very different management approaches (Welsh and White, 1981) which often reflect the implicit rather than explicit, nature of the process in small firms. In these circumstances, small firm internationalization is often considered to be ad hoc and export activity regarded as; at best unplanned, reactive or opportunistic’

Thus, research suggests that a greater understanding of both domestic and international behaviour of smaller firms is still required. Moreover, critical interrelationships between domestic and export activities also need to be explored within the contexts of the firms overall business strategies. The present study seeks to

address this and provide additional research and public policy linkages. The specific objective of the enquiry is to explore the interrelationships between overall business strategy and internationalization. A number of key issues to be empirically investigated in-depth include; Firms initial business strategies, growth objectives and international orientation; the stimuli which influenced the choice of strategies and subsequent decisions; the role of internationalization in the overall business strategy of the firms.

There have been very many theories addressing internationalization of firms in different ways. Adam Smith talked of absolute advantage basing on the classical economies thought, while David Ricardo came up with his argument that Adam Smith was not right and came up with competitive advantage. However, not all the theories are applicable to the case of internationalization of organization but they complement each other in enabling one understand internationalization of firms (Masum, & Hernandez, 2008).

2.2.1 The Uppsala Internationalization Process Model

The theory was first developed by Wagner, (2009) as they were studying Swedish Firms. It was observed that firms internationalized by following a series of incremental steps. The theory was later refined and it puts its focus on four aspects that a firm should encounter as it internationalises. They include; market knowledge and commitment, commitment to making decisions, current activities that are divided into stages and change aspects (Wagner, 2009, p. 318)

The theory assumes that the market knowledge and commitment to the market affects the decisions to commitment and the way decisions on current activities are formed. This in turn changes the knowledge on the market and commitment to the same market. The commitment of resources in foreign markets affects the knowledge of the company about the foreign market (De Wit, 2002). Step by Step growth means that organizations begin their internationalization process in the markets that are near and have less psychic distance. Psychic distance refers to the factors like cultural differences, language differences and political systems etc. Firms that do not have export links with the market will begin exporting to the markets through an agent or they can also enter the market through joint ventures and other modes. (De Wit, 2002).

2.2.2 Network Theory

Network theory argues that today's modern organizations do not exhibit incremental (step by step process) of internationalization but rather, they internationalize faster through the help of resources of network patterns (Mitgwe, 2006). As defined by Masum & Fernandez, (2008), a network is a set of two or more interconnected business relationships in which business organizations relate to each other by exchanging things like information, ideas and goods.

According to Andexer, (2008), networking is a source of information about the market and knowledge which is acquired in the long term when there is no relationship with the host country. Thus networks act as a bridging mechanism for internationalization. The network theory put its emphasis in the ability of parties involved coming closer using information acquired by the firm through an

establishment of a close relationship with customers, suppliers, distributors etc. the relationship created is based on mutual trust, commitment in the market and knowledge on the market (Mitgwe, 2006).

According to (Andexer, 2008), in foreign markets, firms usually establish and develop their position in the market in relation to their competition. Before internationalization, firms involve themselves in domestic networking to establish relationship in a foreign country. The position of the company in a local network is important since it shows the ability of the company to mobilise resources in the network. Thus all firms are related to other firms whether local or international. The company coordinates its operations with the actors in the market in a manner as to make profit from the activities and relations. Coordination in the market comes from the interaction of the firms in the network with price being one of the major factors influencing decisions. It is hard to imitate the ties that result from the network of a firm. The ties affect the organisation in three ways which are referrals, timing and making information available to the company (Masum & Fernandez, 2008).

2.2.3 Schumpeter Theory of Innovation

It contended that innovation has relied on the creation of technological or social capability, through problem solving or learning activities principally within and between large firms. The development of new products and processes is the outcome of a path-dependent building upon established capabilities and achievements, by the critical revision of emergent new products or methods and the search for relevant novelty. This insight into the form of innovation is an amalgam of Schumpeter (1934) who used the concept of equilibrium as the theoretical construct. He coined the phrase to describe this equilibrium state: “the circular flow of economic life.” Its chief

characteristic is that economic life thus relating to the global international functioning of firms which then proceeds routinely on the basis of past experience; there are no forces evident for any change of the status quo (Schumpeter, 1934)

In Schumpeter's theory, the dynamic entrepreneur is the person who innovates, who makes 'new combinations' in production thus complying with internationalization which involves integrating an international, intercultural and global dimension into service delivery as far as industries are concerned. Schumpeter described innovation in several ways. He spelled out the kinds of new combinations that underlie economic development encompassing: creation of a new good or new quality of good; creation of a new method of production; the opening of a new market; the capture of a new source of supply and a new organization of industry (e.g. creation or destruction of a monopoly).

According to Schumpeter, people act as entrepreneurs only when they actually carry out new combinations, and lose the character of entrepreneurs as soon as they have built business, after which they run it as other people run their businesses. Schumpeter theory maintained that the essential function of the entrepreneur is distinct from that of the capitalist, landowner, labourer and inventor. According to Schumpeter, the entrepreneur may be any of these things but if he or she is, it is by coincidence rather than by nature of function.

2.2.4 International Entrepreneurship Theory

The theory is about the trend and behaviour observed internationally concerning entrepreneurship with a major focus on how companies discover, enact, analyze and

exploit opportunities in the production of goods and services. According to Masum & Fernandez (2008), entrepreneurship is one of the most common forms of internationalization as the entrepreneur has the knowledge on how to measure the opportunities in the market with the ability to create relationships that are stable with other organisations, consumers, suppliers and contractors in the market. The entrepreneur should be objective and a risk taker and should be able to commit resources in a more efficient manner in order to attain competitive advantage for the company. In this theory, the entrepreneur needs to seek opportunity in other countries and exploit any new opportunities that may arise in the market (Sauvant, Mendoza, & Irmak, 2008).

2.3 Reasons to Internationalize

Companies pursue internationalization strategies for a variety of reasons. Some motives are reactive while others are strategic in nature. An example of a reactive motive is the need to serve a key customer that has expanded abroad, and on the other hand an example of a strategic or proactive motive is to tap foreign market opportunities or acquire new knowledge (Czinkota, 2002). Companies have a vast majority of reasons for going international such as on the reactive reasoning side, there is globalisation of competitors and trade barriers.

On the proactive reasoning side, companies go international because of economies of scale, growth opportunities, and resource access and cost savings. There are a variety of factors that have been driving the spread of globalization across industries. Although their impact and pace has varied according to type of industry, these have been the dominant triggers for change from local to global or regional industry

structure. (Segal – Horn, 2002). The factors in going international are the same as it is for any business decision; determination and commitment to succeed (Export marketing imperative, 2004) the most definite reasons for going international will be to expand a country's operations for profits and responding to intense competition and market saturation in a country. However in most business activities, one or two factors rarely account for a given action. Usually a mixture of factors results in firms taking steps in a given direction. These factors are relevant for SMEs which seek to internationalize.

2.3.1 Proactive Reasons

Proactive motives represent stimuli to attempt strategy change based on the firms' interest in exploiting unique competencies or market capabilities. Profitability has been cited as the strongest motivator for SMEs which go into other countries. The Export Marketing Imperative (2004) identifies proactive motives as profit advantage, unique products, technological advantage, market information, managerial urge, tax benefit and economies of scale. Handicraft companies internationalise as they would like to increase their customer base as well as their profit margins. Majority of the handicraft companies also have unique products that are not available in the new country thus giving them competitive advantage.

2.3.2 Reactive Reasons

Reactive motivations indicate that a firm reacts from pressure or threat in its home market or in foreign markets and adjust passively to them by changing its activities over time. The Export Marketing Imperative (2004) identifies reactive motives as;

competitive pressures, overproduction, declining domestic sales, excess capacity, saturated domestic markets and proximity to customers and ports.

Competitive pressure can manifest itself when a firm fears losing domestic market share to competing firms or losing the foreign market permanently to domestic competitors who focus in those markets. When overproduction is observed during down turns in the domestic business cycle, foreign markets provide an ideal outlet for bloated inventories or surplus. The relevance of these motives will decrease over time as relationships are cut once the domestic market rebounds. Stable declining domestic sales will have the same motivation effect as overproduction. It occurs when a firm prolongs the life of a product by expanding its market into foreign countries. Excess capacity and saturated domestic markets will have similar results as overproduction and declining domestic sales respectively. A major reactive motivation for handicraft companies is proximity to the customers as visibility of the product leads to increases of the products sales abroad.

2.4 Barriers to Internationalization

Barriers in the internationalization process may be divided into three groups; general market risks, commercial risks and political risks. The importance of these risks needs not to be overemphasised, and various risk based management strategies are opened to firms and may include; avoid exporting or moving to high risk markets, diversify overseas markets and ensure the firm is not over dependent on one single market, insure risk when possible, and structure export business so that buyer bears most of the risk. According to Fillis (2002), over one-third of the exporting craft firms have stated that they encounter problems once they entered the export markets. The most

common problem was connected with the choices of a reliable distributor or network, followed by difficulties in promoting the product and matching the competitors' prices.

Handicraft companies face a myriad of challenges while internationalising. Javalgi & White discuss challenges for internationalising which include; first that customers tend to prefer core services from their own country, from countries of similar culture to their own and from economically progressive cultures, Second customers prefer domestic products because of strong nationalistic beliefs and feelings; customer patriotism or conservatism may restrain them from buying goods of foreign origin. Thirdly, cultural elements such as religion, language, gender roles, family structure and time orientation are intertwined with national culture. Quality excellence is also a cornerstone in building competitive advantage hence the challenge is in the weights of different quality dimensions that may vary across cultures. The lack of reliable market data hence experience and knowledge of market research is required.

2.5 Change Agents in Internationalization

For Internationalization or change to take place, someone or something within or outside the firm (internal or external triggers) must initiate it and shepherd it through to implementation. In a recent study of Finnish SMEs, Forsman et al (2002) found that three important triggers for starting operations internationally were as follows; foreign enquiries about the company's products/services and inadequate demand in the home country.

Internal Change Agents: According to Forsman et al (2002) Aggressive managers are a primary change agent internal to a firm. Management can get experience and exposure to the international market by foreign travels. New employees or management who have already had exporting experience are likely to try using this experience in the business activities of their new firms. External Change Agents: Domestic distributors engaging in exporting and foreign trading are a source of encouragement to domestic firms to also participate in the international market. Chamber of Commerce as well as export intermediaries such as export management companies and trading companies are also important change agents. International trade fares and expos organised by the government could also contribute to internationalization. Foreign demand can influence a firm's decision to become international. Enquiries from abroad have a powerful effect on a firm's initial interest in entering the international market.

2.6 Role of the Export Promotion Council (EPC)

The Council through Small and Medium Enterprise Development Division facilitates the mainstreaming of the Micro, Small and Medium Enterprises (MSMEs) including disadvantaged segments of the society into the export process. It also enhances Kenya's competitiveness through product development and adaptation enhancing exporting skills, establishing export Production Villages / Clusters and spearheading youth and women programmes with the aim of mainstreaming them into the export sector. (EPC, 2013)

2.7 Role of African Growth & Opportunity Act (AGOA)

The Ministry of East African Affairs, Commerce and Tourism established the AGOA Unit in the Department of External Trade in November 2011. The Ministry later formed the National Committee on AGOA (NC-AGOA) which comprises of Private Sector players, Civil Society and Government Ministries and Agencies. Officials from The USA Embassy and USAID COMPETE. The main agenda of the Kenya National AGOA strategy is to seek for ways to support the ability of Kenyan Firms to successfully sell in the United States (US) market. (Ministry of East African Affairs, Commerce and Tourism, 2012)

CHAPTER THREE

RESEACH METHODOLOGY

3.1 Introduction

This chapter covers research design, population, sample size, data collection and data analysis.

3.2 Research Design

Research design involves an operational frame within which facts are placed, processed through analyzing procedures and the valuable research output is produced. This was a case study of the ‘handicraft sector’ and the design helped investigate the factors influencing internationalization of handicraft companies in Kenya. The research design adopted was descriptive study which enabled the researcher to collect in depth information about the population of study.

3.3 Population of the study

The population of the research was the registered handicraft businesses in Kenya which were mainly drawn from Nairobi and other parts of the country. According to the EPC and Ministry of East African Affairs, Commerce and Tourism, 2013, there are total of 196 registered handicraft companies in Kenya.

3.4 Sample Design

Since a study of the entire population would not have been practical, the study carried out a study of 40 handicraft companies based in Nairobi out of the total population of

196 companies. The sampling design used was simple random sampling in order to obtain the sample size.

3.5 Data Collection

Data collection was done by way of questionnaires which comprised both open ended and closed ended questions. The questionnaire was administered personally and was divided into 4 sections: Section A consisted background information relating to the handicraft companies. Section B sought to establish the factors influencing internationalization of the firm while Section C aimed at establishing the issues facing firms as they seek to internationalize their operations. Section D contained open ended general questions which aimed at getting the respondents in depth information.

3.6 Data Analysis

According to Kombo and Tromp (2006), data analysis refers to examining what has been collected in a study and making deductions and inferences. Quantitative data that was collected from closed ended questions was analyzed using descriptive and statistical analysis. The findings were then presented using tables, percentages and pie charts with interpretations being given in prose after each figure and table. The quantitative data was computed using the Statistical Package for Social Sciences (SPSS). Qualitative data which was collected from the open ended questions in the research was organized and analyzed by way of content analysis.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter gives detailed findings and discussions of the study. The objective of this study was to determine the factors influencing internationalization handicraft companies in Kenya. The study targeted a total of 40 respondents and the 40 questionnaires were released. Out of the 40 questionnaires released, a total of 30 handicraft companies responded to the questionnaires giving a response rate of 75%. The response rate was sufficient and representative and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% is over excellent.

This commendable response rate was due to the numerous follow up phone calls and personal visits to respondents to remind the respondents to fill in and return the questionnaires. The collected quantitative data was entered into SPSS and analyzed using descriptive statistics especially mean and standard deviations while the qualitative data was analyzed using content analysis.

4.2 Background Information of the Companies

The analysis of the characteristics of the handicraft companies was as to determine the average business annual turnover, average number of employees, the ownership structure of the business, the average numbers of companies involved in international business, the number of years the business has been involved in international trade and the countries where the businesses have been involved in international trade.

4.2.1 Business Annual Turnover

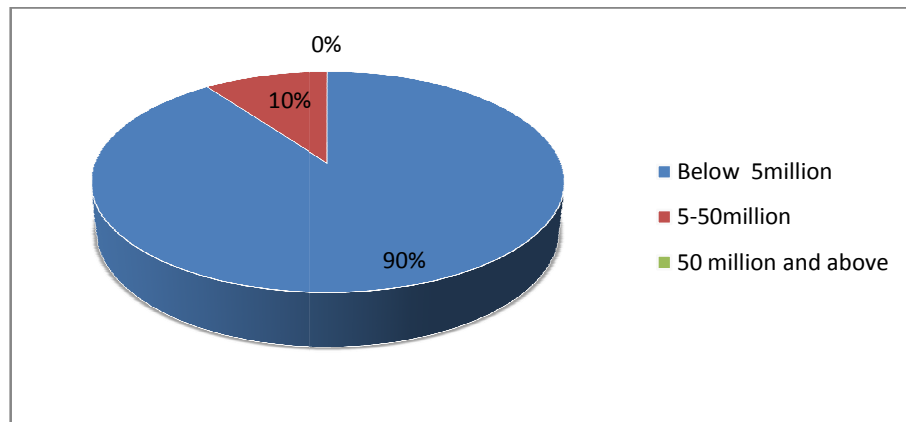
It was necessary to find out the business annual turnover of handicraft businesses in Kenya to verify if they were indeed SMEs. The findings of this study showed that 90% of the businesses had a annual turnover of below 5 million, 10% had 5-50 million turn over, and none of the businesses considered under this study had a turnover of above 50 million. The findings are shown in the table and figure below.

Table 1: Business annual Turnover

Category	Frequency	Percentage
Below 5million	27	90%
5-50million	3	10%
50 million and above	0	0%
Total	30	100%

Source: Author (2013)

Figure 1: Business annual Turnover



Source: Author (2013)

4.2.2 Number of Employees

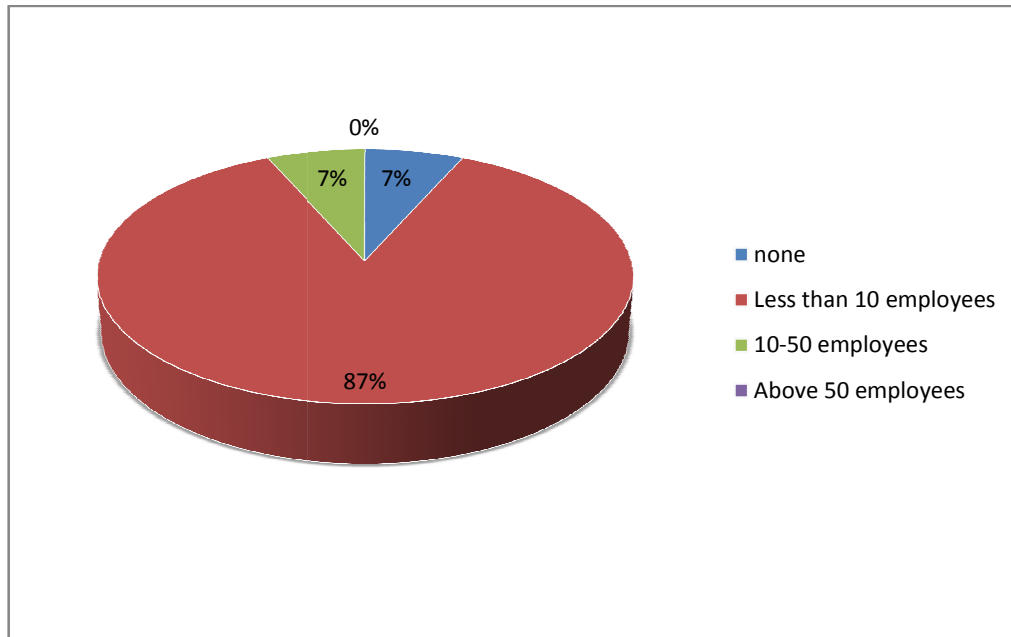
It was also important to find out the number of people that are employed in the handicraft businesses in Kenya. The findings of this study show that 7% of the businesses did not employ anybody and were run by the owner, 87% had less than 10 employees, another 7% had between 10-50 employees and none of the businesses under this study had above 50 employees. This is characteristic of SMEs. The findings are shown in the table and figure below.

Table 2: Number of Employees

Category	Frequency	Percentage
None	2	7%
Less than 10 employees	26	87%
10-50 employees	2	7%
Above 50 employees	0	0%
Total	30	100%

Source: Author (2013)

Figure 2: Number of Employees



Source: Author (2013)

4.2.3 Ownership Structure of the Business

The ownership structure of businesses in the handicraft businesses in Kenya and its influence on internalization was also taken into consideration. The findings of this study show that 80% of the businesses were individually owned, 13% had group ownership, and 7% were owned through other means including family ownership.

This can be attributed to the limited resources within the reach of these SMEs.

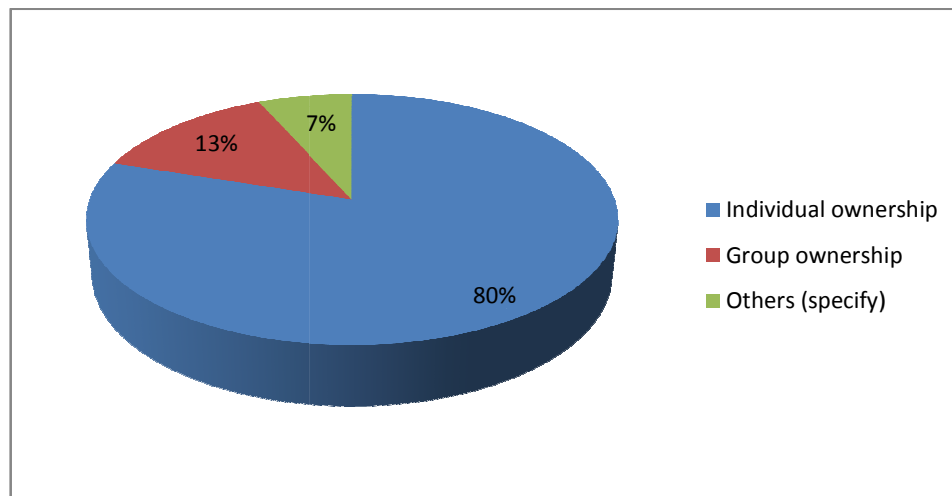
The findings are shown in the table and figure below.

Table 3: Ownership structure of the Business

Category	Frequency	Percentage
Individual ownership	24	80%
Group ownership	4	13%
Others (specify)	2	7%
Total	30	100%

Source: Author (2013)

Figure 3: Ownership structure of the Business



Source: Author (2013)

4.2.4 Number of years engaged in International Business

The number of years the handicraft companies had engaged in International businesses was also taken into consideration. The findings of this study shows that 20% of the businesses were not involved in international trade, 13% had been involved in international trade for less than 3 years, 27% between 5- 10 years, and a

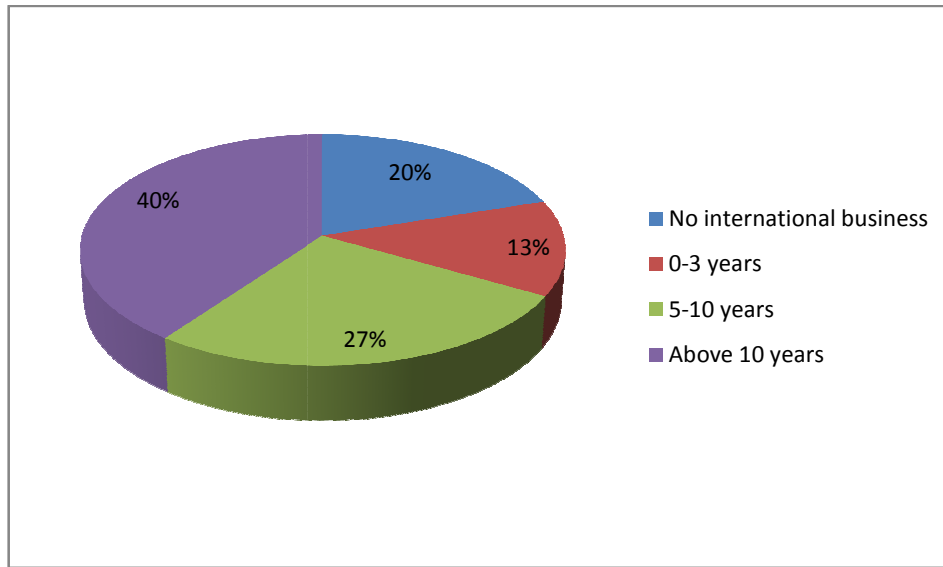
majority of 40% had been involved in international trade for a period of over 10 years. This illustrates that handicraft businesses are well established in Kenya as shown by the length of time that they have been participating in international business. The findings are shown in the table and figure below.

Table 4: Number of years engaged in International Business

Category	Frequency	Percentage
Not involved	6	20%
0-3 years	4	13%
5-10 years	8	27%
Above 10 years	12	40%
Total	30	100%

Source: Author (2013)

Figure 4: Number of years engaged in International Business



Source: Author (2013)

4.2.5 Countries where Handicraft companies practised International Trade

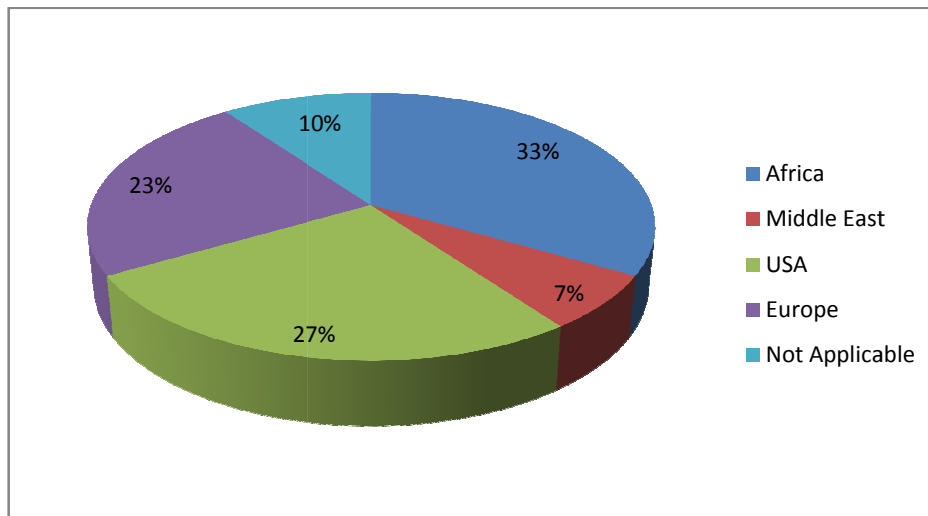
The findings of this study showed that 33% percent engaged in international trade within Africa, 7% of the businesses engaged in international trade with Middle East countries, 27% with the U. S. A, 23% with Europe and 10% were not involved in international trade. These findings show that majority of the handicraft traders engage in international trade within Africa which is due to the lower costs associated. USA and Europe follow which can be attributed to the fact that these are large markets with high demand for Kenyan handicrafts. The Middle East market is however relatively unexploited. The findings are shown in the table and figure below.

Table 5: Countries Engaged in International Trade

Category	Frequency	Percentage
Africa	10	33%
Middle East	2	7%
USA	8	27%
Europe	7	23%
Not Applicable	3	10%
Total	30	100%

Source: Author (2013)

Figure 5: Countries Engaged in International Trade



Source: Author (2013)

4.2.6 Source of products traded across borders

The source of the products sold by the handicraft companies across borders was also taken into consideration. The findings of this study showed that 30% acquired their

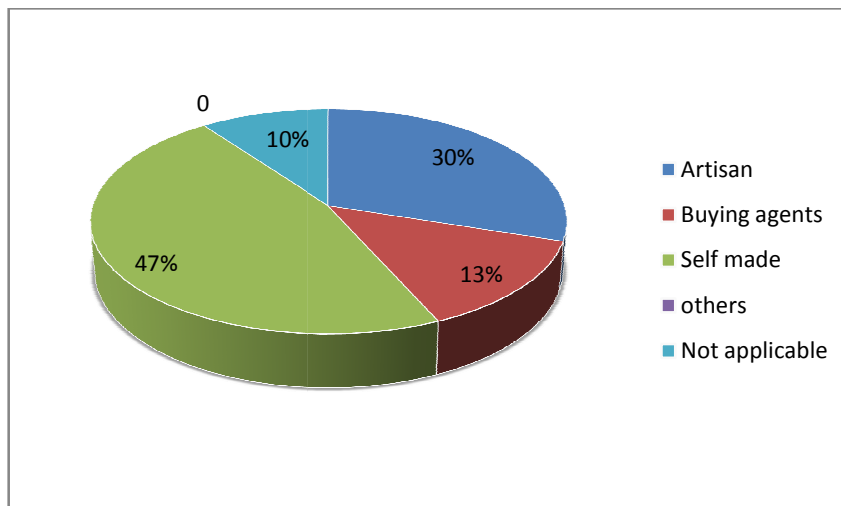
products from artisans, 13% got from buying agents, 47% of them made the products themselves, and 10% of the respondents found this question not applicable to them. Majority therefore prefer to make the products themselves or buy them from artisans in order to lower the cost of acquiring the handicrafts. The findings are shown in the table and figure below.

Table 6: Source of products traded across borders

Category	Frequency	Percentage
Artisans	9	30%
Buying agents	4	13%
Self made	14	47%
Not applicable	3	10%
Total	30	100%

Source: Author (2013)

Figure 6: Source of products traded across borders



Source: Author (2013)

4.3 Factors influencing Internationalization

In order to meet the research objective, the researcher asked several questions and these are represented in the following section.

The respondents were asked to indicate to what extent the following channel would be used by SMEs in handicraft in Internationalization process business. The answers were ranked on a 5 point likert scale where 5=To a very large extent 4= To a large extent 3=To a moderate extent, 2=To a small extent and 1= To no extent in order to show the extent of how the factors influence internalization of SMEs. The results are shown in the tables below.

4.3.1 Channel used Handicraft Businesses to internationalize

Table 7: Channel used by Handicraft Business to internationalize

Statement	Mean	STDEV
Direct exports with buyers in the international market	3	1.32916
Exporting to specific well established suppliers	3	0.707107
Establishing a fully fledged organization in the host market by way of Foreign Direct Investment(FDI)	2.8	1.30384
Grand Mean	2.93	1.113369

Source: Author (2013)

Table 7 shows the channels that are used by SMEs in handicraft business process and how they influence internalization of SMEs in the handicraft sector. As shown, direct exports with buyers in the international market (Mean=3), exporting to specific well established suppliers (Mean= 3) and establishing a fully fledged organization in the

host market by way of Foreign Direct Investment (FDI) (mean=2.8). These channels have a combined mean of 2.93 and a standard deviation of 1.113369. A combined mean of 2.93 indicates that these factors influence internalization of SMEs to a moderate extent. This shows that this dimension of factors is significant to take into consideration when considering internalization of SMEs. Most of the respondents were of the view that direct exports with buyers and exporting to the well established suppliers in the foreign market were more favourable compared to establishing a fully fledged Foreign Direct Investment (FDI) in the foreign market. This is because the latter is more expensive and unrealistic for majority of the handicraft traders who would rather export either directly or indirectly.

4.3.2 Motivators of International Business success

Table 8: Motivators

The respondents were asked to indicate to what extent they considered the following factors as important for successful internationalization and growth of the firm. The answers were ranked on a 4 point likert scale where 1=Not at all 2= Least important 3= moderately important 4= Most important. The results are shown in the tables below.

Statement	Mean	STDEV
Management commitment to international market penetration	3.75	6.849574
Management understanding of international market dynamics	3.75	7.5
Government support for internationalization.	3.75	7.5
Financial capital and access to credit	3.75	7.5
Size of the business/firm	3.75	7.5
Grand Mean	3.75	7.369915

Source: Author (2013)

Table 8 shows the motivators for internationalization of SMEs. As shown, these ways are; management commitment to international market penetration (Mean=3.75), Management understanding of international market dynamics (Mean= 3.75) government support for internationalization (mean=3.75), Financial capital and access to credit (Mean=3.75) and Size of the business/firm (3.75). These factors have a combined mean of 3.75 and a standard deviation of 7.369915. A combined mean of 3.75 indicates that these factors are very important and therefore influence internalization of SMEs to a great extent.

4.3.3 Competitive Strategies

Table 9: Competitive Strategies

The respondents were asked to indicate to what extent they considered the following competitive strategies as contributors to increase successful internationalization of handicrafts businesses.

The answers were ranked on a 5 point likert scale 5=to a very large extent 4= to a large extent 3=to a moderate extent 2=to a small extent 1=to no extent

Statement	Mean	STDV
Use of credit facilities and loans to support handicraft businesses expand operations	5	0
Diversification into new and untapped markets	3	5.612486
Focus on specific geographical markets	3	1.870829
Differentiating products to offer high quality and unique products	3	4.242641
Undertake aggressive marketing and promotion campaigns	3	5.196152
Carry out market research to keep up with current market trends and needs	3	5.09902
Participate in training programs and workshops to enhance skills	5	6.082763
Get into collaborative agreements with sellers abroad to supply and sell products	3	4
Use technology to communicate and market products	3	6.164414
Participate in international market promotions	3	5.612486
Grand Mean	3.4	4.875643

Source: Author (2013)

Table 9 shows the competitive strategies and their influence on internalization of SMEs. As shown, these ways are use of credit facilities and loans to support

handicraft businesses expand operations (Mean=5), diversification into new and untapped markets (Mean= 3), focus on specific geographical markets (Mean=3), differentiating products to offer high quality and unique products (Mean=3), undertake aggressive marketing and promotion campaigns (Mean=3), Carry out market research to keep up with current market trends and needs (Mean=3), participate in training programs and workshops to enhance skills (Mean=5), get into collaborative agreements with sellers abroad to supply and sell products (Mean=3), use technology to communicate and market products (Mean=3) and Participate in international market promotions (Mean=3).

These factors have a combined mean of 3.4 and a standard deviation of 4.875643. A combined mean of 3.4 indicates that these factors are a great extent important and therefore influence internalization of SMEs.

4.4 Challenges of Internationalization

Table 10: Challenges of Internationalization

The respondents were asked to indicate whether these are the challenges faced in Internationalization of handicraft businesses in Kenya using a scale of 1 to 5 where 5=to a very large extent 4= to a large extent 3=to a moderate extent 2=to a small extent 1- to no extent

Statement	Mean	STDEV
Competition from handicrafts originating from other countries	3	4.062019
Lack of credit and working capital	3	4.062019
High packaging and shipping cost	3.75	3.774917
Lengthy international business procedures and documentation	3	4.527693
Communication barriers	3	1.224745
Inadequate market information and poor export marketing skills and knowledge	3.75	3.774917
High and ever changing tariffs, certification and quality standards set by the international markets	3	2.54951
Lack of creativity amongst artisans to meet market specifications and demanding clients	3	2.44949
Counterfeits and lack of patent laws	3	5.09902
Global economic downturn affecting sales	3	4.062019
Grand Mean	3.15	3.558635

Source: Author (2013)

Table 10 shows the challenges of internalization and their influence in internalization of SMEs. As shown, these challenges are competition from handicrafts originating from other countries (Mean= 3), lack of credit and working capital (Mean= 3), high packaging and shipping cost (Mean= 3.75), lengthy international business procedures and documentation (Mean= 3), communication barriers (Mean= 3), Inadequate market information and poor export marketing skills and knowledge (Mean= 3.75), high and

ever changing tariffs, certification and quality standards set by the international markets (Mean= 3), Lack of creativity amongst artisans to meet market specifications and demanding clients (Mean= 3), Counterfeits and lack of patent laws (Mean= 3) and Global economic downturn affecting sales. A combined mean of 3.15 and a standard deviation of 3.558635 indicate that these challenges to a moderate extent influence internalization of SMEs.

4.5 Impact of the Export Promotion Council

The findings showed that majority of the handicraft traders feel that the government and its agencies such as EPC is not doing enough to support internationalization of SMEs in the handicraft sector. This is due to the fact that they do not organize enough local and international trade exhibitions. They also stated that majority of the times they are unaware when the trade exhibitions do take place as the EPC does not run awareness campaigns. A significant number of traders also stated that preferential treatment is accorded to the more established handicraft companies thereby leaving out the less established ones who also require similar support. The traders also felt that EPC should conduct more training programmes for handicraft traders with an aim to disseminate export knowledge and create awareness on opportunities presented by government to export handicraft products.

4.6 Impact of AGOA

Over 95% of the handicraft traders indicated that they had never heard of AGOA and are not aware of the organizations role in promotion of Sub Saharan exports into the US. The traders feel that the organization needs to increase its awareness levels so that they also can benefit from the opportunities presented by AGOA. As for the few

traders who knew about AGOA they highlighted that AGOA serves a crucial role in promoting exports to the US however the major beneficiaries from AGOA are those in the horticulture industry who export cut flowers.

4.7 Suggestions for improvement

The suggestions given include the government educating traders on existing opportunities by way of holding training programs and workshops. The government should also enforce patent laws to ensure that Kenyans reap from their creativity. In addition the government should also offer more credit facilities to the small handicraft traders to enable them also participate in international business.

The government was also urged to reduce freight cost and make it easier for traders to travel by reducing the numerous travel requirements, the government should establish an information office where traders can make enquiries and have their concerns addressed and also help in marketing and showcasing Kenyan handicrafts abroad. Finally the government should support the traders by partly funding the expenses incurred to participate in international trade exhibitions so as to enable make a profit from the fairs.

4.8 Discussions of findings

The purpose of this study was to determine the factors that influence internationalization of Small and Medium Sized enterprises (SMEs): a case of Handicraft businesses in Kenya. The study found out that the dimensions related to channels used by SMEs in the handicraft sector to internationalize included direct exports with buyers in the international market (Mean=3), exporting to specific well

established suppliers (Mean=3), and establishing a fully fledged organization in the host market by way of Foreign Direct Investment(FDI) (Mean=2.8). Dimensions related to the motivators for international business involvement were management commitment to international market penetration (Mean=3.75), management understanding of international market dynamics (Mean=3.75), government support for internationalization (Mean=3.75), financial capital and access to credit (Mean=3.75) and size of the business/firm (Mean=3.75).

As for the dimension relating to the competitive strategies that make handicraft businesses perform better in international markets, they include use of credit facilities and loans to support handicraft businesses expand operations (Mean=5), diversification into new and untapped markets (Mean=3), focusing on specific geographical markets (Mean=3), differentiating products to offer high quality and unique products (Mean=3). Others include undertaking aggressive marketing and promotion campaigns (Mean=3), carrying out market research to keep up with current market trends and needs (Mean=3). Others included participating in training programs and workshops to enhance skills (Mean=5), getting into collaborative agreements with sellers abroad to supply and sell products (Mean=3), use of technology to communicate and market products (Mean=3) and participating in international market promotions (Mean=3).

The study also sought to establish the challenges faced by SMEs in the handicraft sector as they engage in international business which include facing competition from handicrafts originating from other countries (Mean= 3), Lack of credit and working capital (Mean= 3), high packaging and shipping cost (Mean= 3.75), lengthy

international business procedures and documentation (Mean= 3), Communication barriers (Mean= 3), Inadequate market information and poor export marketing skills and knowledge (Mean= 3.75).

High and ever changing tariffs, certification and quality standards set by the international markets (Mean= 3), lack of creativity amongst artisans to meet market specifications and demanding clients (Mean= 3), counterfeits and lack of patent laws (Mean= 3) and global economic downturn affecting sales (Mean=3).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusions, and recommendations of the study. The chapter is presented as follows: Summary of the findings, conclusion of the study, recommendation for policy and practice, the limitation of the study and finally suggestions for further research are presented.

5.2 Summary of the Findings

First and foremost a review of the literature was performed so as to understand the theories of internationalization. These theories help to ascertain why firms gradually become involved in exporting and other forms of International business. Secondly, a review of the barriers to internationalization and the change agents in the internationalization process were also covered. The study was designed as a cross-sectional survey. The target population of was the 196 registered handicraft companies in Kenya. A sample of 40 handicraft companies was selected using simple random sampling technique so as to select the companies from the study population. Primary data was collected using 40 questionnaires administered to the handicraft companies based in Nairobi. A total of 30 handicraft companies responded to the questionnaires giving a response rate of 75% which was over excellent. Data was then analyzed using descriptive analysis and content analysis.

The study found out that the most of the handicraft companies were in the category of SMEs and were individually owned as they have limited financial capital to expand and take full advantage of opportunities in the global market. Majority of the handicraft businesses had operated in the global market for over 5 years and this shows that the handicraft industry has operated for long and is well established. The research found that there was a wide variety of handicrafts traded included jewellery, carvings, curios, baskets, kikoys, African clothing, paintings, Kisii soap stone among others. Majority of the handicraft companies engaged in international business with markets in Africa, America and Europe, with Africa leading as the cost of engaging in international business close to home was lower. Majority of the traders sold handicrafts that were self made and/or sourced from artisans as this helped in reducing costs.

It was also established that the most likely channel that was preferred while engaging in international business is exporting to specific well established suppliers because it made it easier to access the foreign markets. The biggest motivators for successful internationalization in the international market were spread out evenly between management commitment to international market penetration, management understanding of international market dynamics, government support for internationalization, financial capital and access to credit and size of the business/firm. This clearly showed that each of these factors were very key for successful internationalization.

The competitive strategies that can be applied for the handicraft sector to successfully engage in international business include use of credit facilities and loans to support

handicraft businesses expand operations and participate in training programs and workshops to enhance skills. The rest of the strategies ranked to a moderate extent which shows that they were also important though to a lesser extent. This shows that the traders are greatly faced with financial challenges and they also require more information by way of training in order to acquire the necessary market information.

The challenges that most handicraft traders faced while pursuing international business are the high shipping and packaging costs and lack of proper market information and poor export marketing skills and knowledge

On the issue of awareness of government agencies like EPC and their role most of the handicraft traders were not aware of EPC's role and stated that such agencies ought to educate the traders on their role. Majority of the traders had not heard of AGOA and hence the National Committee on AGOA ought to increase its awareness campaign among traders for them to know the opportunities that AGOA presents to handicraft traders to access the US market under AGOA. Information about the activities of these organisations will help the traders better exploit the numerous opportunities in the international market.

5.3 Conclusions of the Study

The study concludes that the handicraft business is a very lucrative sector which has a very high potential of being a major contributor to the country's economy. The right measures ought to be put in place in order to encourage the handicraft traders to trade beyond borders while making sure they operate at a profit. Majority of these traders operate and this goes to show that financial boost is needed for these firms as they have less access to capital. However despite the numerous challenges these firms still

pursue the international markets as there is demand for the handicrafts across the Kenyan borders. These challenges can be addressed by e.g. reduction of the high packaging and shipping costs which eats into their revenue and discourages them from pursuing international business. The government should also endeavour to provide information on available opportunities by way of workshops and training programmes as many of the traders are unaware of the government programmes that could help them succeed in the international markets.

The study further concludes that the challenges encountered by the handicraft traders were within their control and the control of government. This indicates the big room for growth of internationalization of the handicraft sector as the challenges undermining this sector are within the traders' and government control. The study also depicts the lack of proper coordination between key players in the handicraft sector and government in addressing the challenges facing handicraft traders involved in international business. This lack of coordination prohibits the growth of the industry to its full potential and in turn denying the much sought after foreign markets and employment opportunities for Kenyans. The study further concludes that the factors that determine the success of the handicraft sector in the international market include managements' commitment to international markets, managements understanding of international market dynamics, governments support for internationalization, financial capital and access to credit and the size of the firm. These factors were deemed very key for handicraft companies to successfully internationalize.

The study also concludes that organisations such as EPC and the National Committee on AGOA (NC AGOA) need to increase the awareness level of their activities. EPC is

charged with promotion of Kenyan exports abroad while AGOA aims at increasing the exports from Sub Saharan Africa into the US. Majority of the handicraft traders were not aware of the existence of these bodies which leads to numerous lost opportunities that could translate to higher revenues for these traders.

The researcher concludes that the way to increase successful internationalization of the handicraft industry in Kenya is by increasing training programs which could include visits of delegation of handicraft traders abroad to explore overseas market opportunities and reduction of shipping and transport cost. The government should also facilitate easy access to credit for the traders, organize numerous trade exhibitions in foreign countries and ensure that the stands are affordable even to small scale handicraft traders. The handicraft traders should also embrace the use of modern technology to help in advertising their handicrafts by use of social media.

The study concludes that the prospects of internationalization of the Kenyan handicraft sector are high and with immense opportunities both for the traders and the country. This is due to the fact that there is growing demand for Kenyan handicrafts in local and international markets. The governments needs to nurture and protect this sector and ensure that the patent laws are observed and that Kenyans are made aware of the need to patent our handicrafts.

5.4 Recommendations for Policy and Practice

The study recommends that that the government plays its role in ensuring that it plays a key role in ensuring successful internationalization of SMEs and specifically those in the handicraft sector. This is shown by the overwhelming responses that the government and its agencies have not done enough to facilitate successful

internationalization of Kenyan handicrafts. The government should explore ways to ensure that handicraft traders have access to credit facilities to enable them grow their businesses and also educate traders on the need to patent their innovations to ensure that Kenyans reap from their creativity. The government ought to look into ways to reduce the cost of doing international business by reducing the transportation and shipping costs. The government should also conduct awareness campaigns on the role of organizations that act as a boost for international trade eg EPC and AGOA. The traders also lack awareness of existing funding opportunities and the government should also further fund the activities of small traders to give them the necessary boost to compete in international markets.

The government is encouraged to organise for visits of handicraft traders' delegations abroad where they can explore the overseas market opportunities. This visits should include the untraditional markets which are unexploited e.g. Asia and Middle East so as to help the sector to survive economic regression experienced in continents such as Europe and America. The handicraft traders should also be encouraged to embrace technology by e.g. use of internet to advertise their products in order to increase the market reach.

5.5 Limitations of the Study

This study focused on handicraft businesses in Kenya and the results may not apply to other businesses in other industries. Such conclusions and interpretations should therefore be approached with utmost care. Secondly, this study relied heavily on gathering information by way of questionnaires from respondents some of whom were unwilling to give information. Some cited that the information sought would be

used to victimise them especially because some felt that they were discussing some confidential information e.g. annual business turn over. The researcher handled this problem by carrying an introduction letter from the University and assured the respondents that the information they give would be handled with utmost confidentiality and it would be used for purely for academic purposes.

There were likely cases of respondents wanting to issue hurried responses as some of the respondents were approached while on duty and the data therefore likely to be inaccurate. The researcher overcame this problem by requesting the respondents to fill in the questionnaires in their free time when they were likely to give the questionnaire their undivided attention.

5.6 Suggestions for Further Research

The study recommends that more studies be done on this subject to establish other factors that influence performance of handicraft businesses in the local Kenyan market too because in addition to successful internationalization, the handicraft businesses ought to record good performance in the local Kenyan market before succeeding in the international markets.

The study also recommends that more in depth studies be done on the role of government in enhancing the internationalization of the Kenyan handicraft industry order to offer this sector the much needed boost and attention.

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APPENDIX I: INTRODUCTION LETTER



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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Telegrams: "Varsity", Nairobi
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P.O. Box 30197
Nairobi, Kenya

DATE.....17/08/2013

TO WHOM IT MAY CONCERN

The bearer of this letterNELLY WAMBUI NGUNGURU


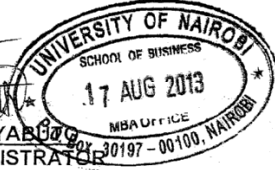
Registration No.....061/72302/2011

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 NYABWERA
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

APPENDIX II: QUESTIONNAIRE

The University of Nairobi

MBA (International Business Management)

Research questionnaire for Handicrafts companies in Kenya

This questionnaire is devised to gather information on factors influencing internationalization of SMEs: a case of handicrafts in Kenya. Your genuine responses are kindly requested.

Thank you for your cooperation and support in realizing this research project.

General Direction:

- Please fill out and return the questionnaire properly
- Any confidential data obtained from you will only be used in aggregated form in any report or presentation concerning the survey and all data will be treated as highly confidential

Section A: Background Information

1. Name of Organization or business.....
2. Location of business.....
3. Position in the Company/Business.....
4. Main Line of Business.....
5. Business Annual Turn over

O-5 Million Kshs () 5-50 Million Kshs() 50 Million – 1 Billion Kshs()

6. Number of Employees

Less than 10 employees() 10-50 employees() above 50 employees()

7. Which of these describes the ownership structure of your business

Individual ownership() Group ownership() others(specify).....

8. Do you engage in international business.....

9. If No. Why not?

10. If yes what is the number of years your business has engaged in international Business

0-3 years () 5-10 years () Above 10 years ()

11. Which countries are you engaging international business in?

Africa() MiddleEast() USA() Asia () Europe() Other – specify.....

12. Which products is your business selling abroad.....

13. What is the source of your products traded across borders

Artisans () Buying Agents () Self made () Others specify.....

Section B: Factors influencing Internationalization

14. In your own opinion, and on a scale of 1-5 what is most likely channel to be used by SMEs in handicraft business in Internationalization process on a scale of 1-5 where:

5=To a very large extent 4= To a large extent 3=To a moderate extent
2=To a small extent 1- To no extent

Please tick where appropriate

	1	2	3	4	5
Direct exports with buyers in the international market					
Exporting to specific well established suppliers					
Establishing a fully fledged organization in the host market by way of Foreign Direct Investment(FDI)					

15. Do you consider the following factors as important for successful internationalization and growth of the firm on a scale of 1-5 where:

1. Not at all 2. Least important 3. Moderately important 4. Most important

	1	2	3	4
Management commitment to international market penetration				
Management understanding of international market dynamics				
Government support for internationalization.				
Financial capital and access to credit				
Size of the business/firm				

Please indicate if these are ways to increase successful internationalization of handicrafts businesses on a scale of 1-5 where:

5= To a very large extent 4= To a large extent 3=To a moderate extent
 2=To a small extent 1- To no extent

Please tick where appropriate

	1	2	3	4	5
Use of credit facilities and loans to support handicraft businesses expand operations					
Diversification into new and untapped markets					
Focus on specific geographical markets					
Differentiating products to offer high quality and unique products					
Undertake aggressive marketing and promotion campaigns					
Carry out market research to keep up with current market trends and needs					
Participate in training programs and workshops to enhance skills					
Get into collaborative agreements with sellers abroad to supply and sell products					
Use technology to communicate and market products					
Participate in international market promotions					

Section C: Challenges of Internationalization

16. Please indicate if these are the challenges faced in Internationalization of handicraft businesses in Kenya using a scale of 1 to 5 where

5=to a very large extent 4= to a large extent 3=to a moderate extent

2=to a small extent 1- to no extent

Please tick where appropriate

	1	2	3	4	5
Competition by handicrafts from other countries					
Lack of credit and working capital					
High packaging and shipping cost					
Lengthy international business procedures and documentation					
Communication barriers					
Inadequate market information and poor export marketing skills and knowledge					
High and ever changing tariffs, certification and quality standards set by the international markets					
Lack of creativity amongst artisans to meet market specifications and demanding clients					
Counterfeits and lack of patent laws					
Global economic downturn affecting sales					

Section D: Additional Questions

17. Is the government and its agencies such as Export Promotion Council (EPC) doing enough in supporting internationalization of SMEs dealing in handicrafts

18. Are you aware of organisations of African Growth and Opportunities Act (AGOA) and its role in helping increase access of Kenyan products into America?

.....
.....
.....
.....
.....

19. What in your opinion on what ought to be done inorder to increase successful internationalization of Kenyan handicraft companies?

.....
.....
.....
.....
.....

Thank you

APPENDIX III: LIST OF HANDICRAFT COMPANIES

1. Africa Curios Ltd	Nairobi
2. African Arts and Craft enterprises	Nairobi
3. African Crafts	Nairobi
4. African Outsourcing Group	Nairobi
5. African Splendor Ltd	Nairobi
6. Akamba Handicrafts	Mombasa
7. Ali Sheikh and Sons Limited	Mombasa
8. Alivan Freeport Enterprise	Nairobi
9. Amuka Unique Designer	Thika
10. Anyole International Investment	Nairobi
11. Arcade Trade	Nairobi
12. Art House	Kisumu
13. Asonomoo Carving Self Help Group	Nairobi
14. Attika Crafts Agency	Nairobi
15. Awama Afrikana Arts	Nairobi
16. A-Z Range of African Arts and Jewellery Ltd	Nairobi
17. Baticec Heritage	Nairobi
18. Beacon of Hope	Nairobi
19. Bemos Crafts developers	Nairobi
20. Bingwa Curios	Nairobi
21. Binti Apparels	Nairobi
22. Biop company	Nairobi
23. Bombolulu Workshops and Cultural Centre	Mombasa
24. Bosinange Juakali soap stone	Kisii

25. Bwango Self HelpGroup	Malindi
26. Chakacha Handicrafts	Nairobi
27. Chemi Chemi ya ukweli	Nairobi
28. Christian Women Empowerment Foundation	Nairobi
29. Chuka weavers	Nairobi
30. Clear crafts	Nairobi
31. Clear view promotions	Nairobi
32. Constant Gardener	Nairobi
33. Craft caravan	Nairobi
34. Craft and Things	Nairobi
35. Crafts of Africa cultural gallery	Nairobi
36. Cross cultural crafts	Nairobi
37. Curios and Handi crafts	Mombasa
38. Curiosity Artefacts	Nairobi
39. Design Giant Self help group	Nairobi
40. Dignity and Hope women Group	Marsabit
41. Dunga cottage	Kisumu
42. Dynamic Ventures Africa Ltd	Nairobi
43. Eastleigh Community centre	Nairobi
44. Ecosandals	Nairobi
45. Elgon curios	Nairobi
46. Elivab	Nairobi
47. Embu Weavers	Nairobi
48. Equitorial handicrafts	Nyeri
49. Ethima Craft	Nairobi

50. Geneve (K) Limited	Nairobi
51. Ghymil Handicraft – Kenya	Nairobi
52. Gifts centre of Africa	Nakuru
53. Gilo Tye and Dye	Nairobi
54. Githara Crafts	Limuru
55. Gitagia Art & Gallery	Nairobi
56. Gramwa designs	Nairobi
57. Hera Timo Self Help group	Kisumu
58. Hyacynth Craft	Kisumu
59. Imani Workshop	Eldoret
60. Imara Designers	Nairobi
61. International Limited	Nairobi
62. International Marketers	Nairobi
63. Interweave crafts	Nairobi
64. Isinya weavers	Nairobi
65. Isolo weavers	Kitui
66. Jacaranda workshop	Nairobi
67. Jambo Ethnic Arts	Nairobi
68. Janbella Kenya	Nairobi
69. Jedando Modern Handicrafts	Nairobi
70. Jony Craft company	Nairobi
71. Kazuri beads	Nairobi
72. Kenafro crafts	Nakuru
73. Kenana knitters	Naivasha
74. Kencraft curios limited	Nairobi

75. Kenya crafts	Nairobi
76. Kilimanjaro curios	Mombasa
77. Kipenzi designs	Nairobi
78. Kipepeo designs trust	Nairobi
79. Kisii Arts and Crafts	Kisii
80. Kisii soapstone carvers cop society	Kisii
81. Kisii soapstone exporters	Nairobi
82. Kisii soapstone project	Kisii
83. Kiwas crafts	Nairobi
84. Korogosho Bega kwa Bega	Nairobi
85. Lake Front Arts and Crafts	Kisumu
86. Langata Handmade crafts	Nairobi
87. Lazarin Handicrafts	Nairobi
88. Leather Masters Limited	Nairobi
89. Ledama African curios	Nairobi
90. Leo Arts	Nairobi
91. Lifebloom Services	Naivasha
92. Lilco Limited	Nairobi
93. Litha crafts and Gifts	Nairobi
94. Little Chris Wob Agencies	Nairobi
95. MA PANDIT & Company Ltd	Mombasa
96. Maasai Hunt Kenya	Nairobi
97. Maasai Market	Nairobi
98. Maasai Village weavers	Nairobi
99. Machakos District Co-op Union ltd	Machakos

100. Madina Crafts	Nairobi
101. Magoto handicrafts	Kiambu
102. Maisha commodity	Mombasa
103. Malindi Hndicrafts	Malindi
104. Mamba curios and crafts	Nairobi
105. Mango True Mirage Limited	Machakos
106. Manyatta curios	Nairobi
107. Marleen Project	Nyahururu
108. Marflo Impex	Nairobi
109. Maasai Village crafts and weavers ltd	Nairobi
110. Mavisa carvers and exporters	Mombasa
111. Mazoea carvings and suppliers	Mombasa
112. Mega exporters and Importers	Nairobi
113. Millenium handicraft co	Ukunda
114. Mikwetu Weavers	Uthiru
115. Monda African Arts	Nairobi
116. Monic Self help group	Kisii
117. Morgen crafts	Nairobi
118. Movenna Hndicraft organisation	Kisii
119. Mozart	Nairobi
120. Muungano Artists self help group	Kisii
121. Nairobi handicraft co Ltd	Nairobi
122. Naishad Trading company	Nairobi
123. Nalamae crafts	Nairobi
124. Namayiana Maasai women group	Ngong

125. National Juakali Exhibitors & Marketing association	Nairobi
126. National volunteer network trust	Nairobi
127. Nayma Limited	Nairobi
128. Ndovu crafts	Machakos
129. Nik Nacks Limited	Nairobi
130. Nina curios	Nairobi
131. Njemba weavers	Nairobi
132. Nobel exporters	Nairobi
133. Nyabienga soapstone carvers	Kisii
134. Nyauo Fashion House Limited	Nairobi
135. Omusi craft enterprise	Nairobi
136. Ontaso Maasai heritage	Nyeri
137. Opollo curios and crafts	Nairobi
138. Solidarity	Nairobi
139. Overseas curios limited	Mombasa
140. Passionate Funds International	Naivasha
141. Pearls of nature	Nairobi
142. People tree	Naivasha
143. Perfection plus limited	Nairobi
144. Primax crafts	Kikuyu
145. Quill crafts	Nairobi
146. Real African Arts	Nairobi
147. Real crafts Enterprises	Mombasa
148. Revelo links	Mombasa
149. Ripage Curios and general exporters	Nairobi

150. Rozika garden centre	Nairobi
151. Ruma crafts	Nairobi
152. Rumarco Trading	Eldoret
153. Sabara crafts	Nairobi
154. Safari bead Limited	Nairobi
155. Salom enterprises	Nairobi
156. Samilli Investments	Nairobi
157. Sanbora Design House Limited	Nairobi
158. Sanpac Africa Limited	Nairobi
159. Seventh gallery	Nairobi
160. Shalom women group	Makueni
161. Shanga shanga crafts	Malindi
162. Sheshe handicrafts	Nairobi
163. Shikamoo Art Products	Nairobi
164. Sifa self help group	Kisumu
165. Simba African Arts and Crafts Galleries	Nairobi
166. Simba handicraft Traders	Nairobi
167. SKC suppliers	Nairobi
168. Smolart Self help group	Kisii
169. Stekawa Export & Import	Nairobi
170. Swara Handicrafts	Nairob
171. Tabaka United	Kisii
172. Takwiri Creation	Kisumu
173. Tapa Trust	Nairobi
174. Taste of Turkana	Nairobi

175. Tausi African arts	Nairobi
176. Temak	Kisumu
177. Tindi Enterprise	Nairobi
178. Training Talents for Development	Nairobi
179. Trinity jewellery	Nairobi
180. Triple 'A' International Investments	Nairobi
181. Ultimate Outsourcing	Nairobi
182. Undugu Society of Kenya	Nairobi
183. Utamaduni crafts	Nairobi
184. Vanton Craft exporters	Nairobi
185. Victoria Handicrafts group	Kisumu
186. Village Talent Networks	Kisii
187. Wamunyu Heritage	Nairobi
188. Wanasanna Self Help Group	Kisii
189. Wiselink Commodity Enterprise	Nairobi
190. Worldlink curios	Nairobi
191. Yatima curios and crafts	Nairobi
192. Yatta South womens group	Machakos
193. Young Christianity self help group	Kisii
194. Zajiuzza Crafts and Souvenirs	Nairobi
195. Zam Zam weavers	Nairobi
196. Zuri Crafts	Nairobi