DETERMINANTS OF INITIAL EXPORT MARKET PARTICIPATION AMONG
MICRO AND SMALL ENTERPRISES IN THE COMMERCIAL CRAFT SECTOR IN
KENYA

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CITATION: Evans Mwiti (2012). Determinants of Initial Export Market Participation
Among Micro and Small Enterprises in the Commercial Craft Sector in Kenya. International
ABSTRACT

Micro and Small Enterprises (MSE) play a critical role in the economy of most developing as well developed nations in terms employment creation and generally wealth creation. In many developing countries, MSEs form the largest proportion of the businesses and therefore need to be competitive both in the local and international markets. Though Kenya has over 1.3 million MSEs which is a critical mass for any economic development, the level of market participation is low. In terms of export market participation, only about 30% of MSE in Kenya that have been able to tap into the great potential of this huge global market. This is low despite the fact that Kenya has huge potential especially within the commercial craft MSEs who can exploit the global market to market Kenya’s unique cultural and artistic products. The general objective of this study was therefore be to investigate the determinants of initial export market participation among MSEs in the commercial craft sector in Kenya. The specific objectives of the study were to: determine the effect of internal-proactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya. To investigate the effects of internal-reactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya. To establish the effect of external-proactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya. And to determine the effect of external-reactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya. The study adopted the stage theory and the factor proportions theories of internationalization. The study used mix of explanatory and descriptive research designs. The target population for the study was 140 MSEs in the commercial craft sector in Kenya registered with EPC at the time of the study. The study covered all the 116 MSEs in the commercial craft sector in Kenya registered with the export promotion council located in zone one (Nairobi area). The managers of these commercial craft MSEs were studied at their place of work to determine the effect of factors that influence initiation of export market participation. Primary data was collected by use of a semi-structured questionnaire. The data was analyzed by use of descriptive statistics like mean and percentages. Factor analysis was used for data reduction and multiple regression analysis to establish the relationship between the independent and the dependent variable. The research findings show that initial export market participation in Kenya MSEs is influenced by internal proactive factors, external proactive factors and Size of the firm. The study concludes that to enhance export market participation and ensure a vibrant and competitiveness in the global marketplace, these proactive factors need to be addressed. The study recommends that the government and particularly agencies like EPC and associations like AMEGA need to collectively lobby and develop export sensitization programmes and development of appropriate policies to increase MSE export market participation.

Key Words: MSE, Commercial Craft, Export, Market Participation

Introduction

Over the years the role played by the micro and small enterprises (MSE) sector has increasingly been recognized and appreciated not only in the developing but also the developed countries globally. This appreciation has largely been due to the contribution of the MSE sector to economic development particularly in employment creation. It is argued that in Latin America and the Caribbean, MSE’s make up more than 95% of the total number of business establishment and absorb more than 85% of total private sector employment in most countries (Sithore, 2007). The sector accounts for almost 60% of the Canada’s private sector employment and 43% of private sector gross domestic product (GDP). In countries like
Botswana, Malawi, Swaziland and Zimbabwe, the estimated number of people engaged in MSE activities is nearly twice the level of employment in large enterprises and in the public sector (Mead and Liedholm, 1998).

The Kenyan MSE sector is a mixture of self-employment outlets and dynamic enterprises involved in an array of activities that concentrate in urban areas but are also evident in rural Kenya. These enterprises cut across all the sectors of the Kenyan economy and provide one of the most prolific sources of employment creation, income generation, and poverty reduction. (Republic of Kenya, 2005). Majority of MSEs in Kenya are informal in nature with majority not regularizing their operations beyond the licensing requirements by local authorities. However, they play an important role in the economy by creating employment at low levels of investment per job, absorbing surplus labor in the economy, using mainly local resources, promoting local creativity and innovation and creating skills training at a low cost to society (KIPPRA, 2009).

According to the 1999 national baseline survey, there are approximately 1.3 million MSEs, creating employment for 2.3 million people and generating about 14 per cent of the country’s GDP (CBS, ACEG, K-REP, 1999). Approximately two-thirds of Kenyan MSEs are located in the rural areas. Close to two-thirds of all enterprises are in the trade sector, meaning that a large proportion of MSEs were involved in the buying and selling of commodities, 13 and 15 per cent respectively were involved in manufacturing and services (RoK, 2005). A third of the enterprises operate from homes and a half is women owned (Mullei and Bokea, 1999). Women owned small enterprises are more likely to be informal, usually start smaller, use less start-up capital, grow slower if at all, have more limited access to credit and more often operate from less permanent premises and homes (Parker and Torres 1994, Kimuyu and Omiti 2000). The average Kenyan MSE where majority of the commercial craft sector falls, employs 1-2 workers while over 70% employ only one person, with only very few MSEs growing to employ more than 6 workers (RoK, 1992). This shows that despite the importance of the sector in the economy, the growth and graduation to the medium sector is very slow.

Employment within the MSE sector has been registering modest growth over time. The sector contribution to employment increased from 4.2 million persons in 2000 to 5.1 million persons in 2002, accounting for 74.2% of the total persons engaged in 2002 (RoK 2005). This figure has grown to about 7.5 million persons in 2008 accounting for 89.9% of total employment outside small scale agriculture and pastoralist activities. The sector contributes up to 18.4% of the country’s Gross Domestic Production (GDP) in the 2008. The MSE sector is not only seen as a provider of goods and services, but also as a driver in promoting competition and innovation; and enhancing the enterprise culture which is necessary for private sector development and industrialization. There is therefore need to increase the performance and competitiveness of the sector if it has to effectively respond to the challenges of creating productive and sustainable employment opportunities, promote economic growth and poverty reduction in the country.

Dating back to the ILO study on incomes and employment in Kenya, the government has recognized the role of the MSE especially in the informal sector in the economy as evidenced in several policy documents (RoK 1986, RoK 1992, RoK 2003, RoK 2005). ‘Sessional Paper no 2 of 2005 on development of MSEs for wealth and employment creation for poverty reduction’ summarizes the interventions aimed to propel the development of the sector.

Among the main intervention measures include access to finance, strengthening enterprise skills and market linkages (KIPPRA 2009). The Kenyans vision 2030 has adequately laid lots of emphasis on the need to create market linkages for MSEs in order to realize the dream of a globally competitive and prosperous Kenya. However, the actual contribution of MSEs sector in export marketing has not been given adequate attention in policy development. This study will therefore seek to provide some insights on the factors that influence managers of such
MSEs to initiate export marking. The findings of the study will be useful to inform policy development in developing MSE capacity to initiate export participation.

The commercial craft sector referred to as art and craft industry creates an important role in creating international awareness on the rich cultural and artistic diversity of Kenyans. The unique designs and artistic characteristics of commercial craft products vary greatly, and are generally categorized into handmade articles of original and artistic values, articles of decorative value and articles of functional utilitarian value (RoK, 2003b). This has been largely used to even attract tourists in the country.

The global market value for handcrafts is estimated to be at least $100 billion, with key markets being the United States, Germany, France, the United Kingdom, Spain, the Netherlands, Japan, and Hong Kong, followed by a number of additional West European countries (Barber and Krivoshykova, 2006). China is the major producer and exporter of baskets and mats supplying over 54% of world trade of baskets and 73% of mats (Barber and Krivoshykova 2006). Several African producers like Ghana, South Africa, Mozambique, Malawi, Kenya, and Tanzania offer a number of successful handicraft products on the world market. South Africa and Ghana have the highest export capacity and most competitive designs and quality. Their success is based on consistent delivery and the ability to sustain sales based on established relationships (Republic Of Rwanda, 2009).

Though the commercial craft sector in Kenya has been in existence for long, its economic impact to the development of the country was recognized. Commercial craft is one of the ten priority sectors selected in the Kenya National Export Strategy, on the basis of its strategic advantage and contribution to the national economy (RoK, 2003b). The sector plays an important role in creating international awareness on the rich cultural and artistic diversity of Kenyan as well as earning the country the much needed foreign currency.

Exports from the commercial craft sector was valued at Kshs 297 million in 1997, Kshs 371 million in 1998, Kshs 384 million in 1999 and Kshs 388 million in the year 2000 (RoK, 2003b). These figures are modest in that they do not fully capture the revenue generated as a result of direct link of local sales of commercial crafts and the tourist sector, or exports of these products declared at point of exit as gift items of no commercial value. In addition to earning the country foreign exchange, the sector plays a significant role in wealth creation through employment and income generation especially in the rural areas. The commercial craft sector has enormous potential to perform even better especially in the international market but this potential has not been fully exploited. There is very little documented evidence on the contribution and hence the potential of this sector especially in Kenya. This study therefore sought to focus on the MSEs in the commercial craft sector in recognition of the need to document the potential of commercial craft in Kenya.

Trade and investment have long been considered powerful instruments to promote development as it opens up new markets and permit the expansion of productive capacity and higher levels of income and employment (Goitom, 2006). In this era of globalization, most firms will sooner or later compete internationally. Underlying this expansion are several factors including: removal of trade barriers, economic liberalization, technological advances, declining communications and transport costs, and highly mobile multinational enterprises seeking out new investments.

The global economy now reaches every corner of the world, and internationalization now involves not just the giant corporations but also many Micro and Small Enterprises (MSEs). Therefore, business firms cannot focus their business in the domestic market as they are being forced to be internationally competitive and to participate in international business especially for MSE from developing countries like Kenya. Exporting represents one of the simple and most common means of entering the global arena. Its advantages over other market entry strategies are based on reduced financial risks, lower commitment of resources.
and a high degree of flexibility. Trade statistics in Asia show that small businesses
correction to total exports is 56% in Taiwan, 50% in China, 50% in Thailand, 20% in
Vietnam, 42% in south Korea and about 17% in Hong Kong and Singapore (Sithole, 2007).
The role of exports in economic development has been widely acknowledged. Ideally, export
activities stimulate growth in a number of ways including production and demand linkages,
economies of scale due to larger international markets, increased efficiency, adoption of
superior technologies embodied in foreign-produced capital goods, learning effects and
improvement of human resources, increased productivity through specialization and creation
of employment (Were, 2002).
Kenya export sector holds enormous potential for the economic recovery of the country as the
volume of world exports has continued to rise over time. In the last three decades for
instance, exports of developing countries have grown at an average rate of 12% per annum
(RoK, 2003b). As of now, Kenya has distinguished herself as a supplier of quality products to
the world. The export basket however comprises a limited number of products hence the need
for product development, diversification and enlargement.
Factors influencing initial export market participation, also referred to as stimuli, export
incentives or export attention evokers have been explained by some researchers as the most
critical and dynamic elements in determining the export behavior of the firm (Ford &
Leonidou, 1991). In the extent literature, factors influencing initial export market
participation can be classified as either internal i.e. factors relating to influences intrinsic to
the firm or external i.e. factors exogenous in the firms domestic or foreign environment
(Wiedersheim-Paul et al, 1978; Brooks and Rosson, 1982; Kaynak and Stevenson, 1982;
Leonidou, 1998). When an export decision is internally stimulated, it is considered a rational,
objective-oriented behavior and problem oriented adoption process while stimuli that are
externally initiated is a regarded as less-rational, less objective-oriented and an innovation-
oriented adoption process (Lee and Brasch, 1978).
Factors influencing initial export market participation can also be classified as either
proactive or reactive. Reactive factors indicate an aggressive, positive and strategic export
behavior based on the firms interest in exploiting unique internal competences while reactive
factors exemplify passive, negative, tactical engagement in export activities as a response to
environmental pressures (Pavord and Bogart, 1975, Czinkota and Johnston, 1981, Leonidou,
1998). Building on the foregoing classification typologies, Albaum, Duerr and Strandstov
(1989) have identified the following categories of factors influencing initial export market
participation: internal reactive factors, internal proactive factors, external proactive factors
and external reactive factors. Despite the importance of export to economic development
among economies, a review of export marketing literature show that either no attention or
little reference has been given to the factors that influence initial export marketing (Aaby &
Slater, 1989; Douglas & Craig 1992). This study is therefore modeled around this
classification typology and sought to examine factors influencing the initial export market
participation of MSEs in Kenya, with special reference to commercial craft sector as they
seek to be competitive and relevant in the international market.

Statement of the Problem
From the foregoing background literature, export market participation has been proven to be
important contributor to economic development. However, despite the extensive body of
literature on the export behavior of the firm, comparatively less information is available on
the export participation of MSEs from developing countries (Westhead et al. 2004; Westhead
2005). MSEs from all over the world including those from developing countries are now
participating in global market place thanks to globalization of markets. However, although
there is an increased propensity for MSEs to participate in international markets, it’s still not
known whether their participation arise from a systematic planned process or it’s a mere response to unsolicited orders from foreign markets (Williams 2008). In Kenya, export market participation at the firm level appears relatively stagnant. With the exception of textile sector, Kenyan exporting declined between 1999 and 2003 implying that much of export participation come from a small number of firms (World Bank 2004). It was found out that in Kenya, exporting firms are more likely to be larger, older, Nairobi based or foreign owned (World Bank 2004). This leaves out most MSEs especially in commercial craft that are largely small and locally owned. Previous studies on MSE export marketing have largely concentrated on barriers to export development (Kaleka and Katsitkeas 1995, Cromie 1990, Leonidou 2004, Goitom 2006) and the determinants of export performance (Were, 2002, Alvarez 2002, Hollenstein 2005). Studies specifically on initial export market participation are few (Gumede, 2000, Sinani and Hobdari, 2006) and particularly those focusing on developing countries. Furthermore, these studies have concentrated heavily on the manufacturing sector which is mostly dominated by medium to large enterprises, leaving the MSE sector out of policy considerations. Little research has focused on what motivates or triggers firm’s decision to initiate export market participation especially focusing on MSEs from developing countries. There has, thus persistent tendecy to generalise the findings from determinants of initial export market participation undertaken in more developed economies and use the same as the basis for articulating support policies for sub-saharan africa (Leonidou 2000). Other researchers like Bodur (1986), Das (1994) and Okoroao and Torkonoo (1995) have cautioned against such generalisations citing differences in political, economic and infrastructural environments between developed and developing countries. There is particularly a gap in empirical literature on export market participation among MSEs in East Africa, and especially a Kenyan case. The commercial craft sector has been identified has one of the priority sectors in the Kenya export strategy to enhance global competitiveness of the Kenyan exports. The commercial craft sector in Kenya has been in existence for a long time though its impact to the development of the country has not been officially recognized and well documented. If well developed, the sector can play a significant role in expanding the Kenya export basket due to its strategic advantages associated with cultural and artistic designs and tap into the potential of the global export market. This study therefore sought to fill this gap by examining the factors that influence initial export market participation among MSEs with reference to the commercial craft sector in Kenya.

General Objective
The general objective of this study was to establish determinants of initial export market participation among MSEs in the commercial craft sector in Kenya.

Specific Objectives
To determine the effect of internal-proactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya.
To investigate the influence of internal-reactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya.
To establish the effect of external-proactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya.
To determine the influence of external-reactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya.

Literature Review
This chapter reviews literature on determinants of initial export market participation among MSEs in Kenya, and is organized under the following sub-topics: theories of
internationalization, which include the theory of mercantilism, theory of comparative advantage, theory of absolute advantage, factor proportions theory, resource dependency theory, stage theory and institutional theory, and the theoretical foundation of MSE export development, and the empirical review that included the internal proactive factors, internal reactive factors, external proactive factors and external reactive factors. Then the conceptual framework summarizes the relationship among key variables and then identifies the gap to be filled by the study.

Theories of Internationalization
Various theories have been advanced to justify the existence of international and global trade. These theories explain the benefits of both export and import trade to various parties ranging from the enterprise to the economy and generally provide evidence that this kind of trade is highly beneficial to various parties. According to Hill (2007) theories in support of international and global trade can be traced as far back as the 1600s with the theory of mercantilism that was popularized by Thomas Mun in 1630.

Theory of Mercantilism
The theory of mercantilism was practiced between 1600 to 1800, but was popularized by Thomas Mun in 1630 cited in Hill (2007). According to the theory of mercantilism, countries sought to accumulate precious metals particularly gold and silver as a measure of wealth (Bernnet 1999). Gold and silver were the currency of trade during the period. The theory argues that it’s in the nation’s best interest to export more than they import, as imports results in outflow of gold and silver while exports results in the inflow of gold and silver. The aim of the theory of mercantilism was to maintain trade surplus by exporting more than they import, resulting in accumulation of more gold and silver and increased national wealth (Hill and Jain, 2005). The theory hypothesized that the ordinary means to increase a nation’s wealth and treasures is by foreign trade through selling more of the countries produce than the nation consumes imported products (Bernnet 1999). The theory of mercantilism advocated for government interventions in trade by developing policies that seek to maximize exports and minimize imports (Hill and Jain, 2005). The theory of mercantilism is inadequate in promoting the development of international business and particularly exporting as it one sided. For international business operations to work well, all nations need to trade openly with each other.

The Theory of Absolute Advantage
Adam smith in 1776 in his book the Wealth of Nations as cited in Hill and Jain (2005) developed the theory of absolute advantage. In the theory, smith argues that nations should specialize in the production of the goods for which they have absolute advantage in and trade in those goods with which they have no absolute advantage with other countries (Hill and Jain, 2005). The theory promotes specialization and trade among nations and therefore promoting international trade and exporting. The theory was a direct reaction to the theory of mercantilism which smith and other critics described as a zero-sum game. In this regard, smith argues that the theory of absolute advantage is a positive sum game in which there are gains for all the involved. Although the theory provides adequate bases to explain export business, its weakness lies in the fact that it assumes that the participants of international business and hence exporting are countries not firms. This simplifies the concept of international competition which is firm based and more complex due to the large number of participants.
The Theory of Comparative Advantage

In his book the principles of political economy, David Ricardo (1817) cited in Hill and Jain (2005), developed the theory of comparative advantage. The theory argues that countries need to specialize in the production of those goods it produces most efficiently and buy those goods it produces less efficiently from other countries even if it means buying goods it could produce itself (Hill and Jain, 2005). The theory was a direct response to the theory of absolute advantage by arguing that countries need to specialize in production of good they have comparative advantage even when they have absolute advantage in the production of more than one product (Bernnet 1999).

The theory argues that potential world production is greater with unrestricted free trade than with restricted trade. This occurs even in countries that lack an absolute advantage in the production of any good (Hill and Jain, 2005). The theory argues that trade is a positive sum game in which all countries that participate realize economic gains. The theory argues that comparative advantage arises from differences in productivity especially in labour productivity. The theory encourages free trade and therefore a major contribution to the growth of exporting and international trade in general. The theory therefore has contributed to the development of international trade and export marketing. However, just like the theory of absolute advantage, this theory looks at international business operations from national point of view, the actual players are the firms.

The Factor Proportions Theory

The theory of comparative advantage was further improved by two Swedish economists Heckscher E, (1919) and Ohlin B, (1933) who developed what is now known as the Heckscher-Ohlin factor proportions theory. This theory argues that comparative advantage arises from differences in national factor endowments and that international trade is more influenced by differences in factor endowment more than differences in cross-country productivity. The factor endowment refers to the extent to which a country is endowed with certain resources. The theory argues that factor endowments explain the factor costs, in which the more the resources the lower the cost of the resource (Hill and Jain, 2005).

According to the factor proportions theory, countries will exploit those goods that make intensive use of factors locally abundant and import those products that intensively make use of resources that are locally scarce (Bernnet 1999). In this sense, the factor proportions theory seeks to explain the patterns and flow of international trade. However, due to globalization of production firms are moving and carrying out production activities in different locations as they seek either quality maximization benefits or cost minimization benefits creating global production webs. Technological advancements have lowered cost of transportation and therefore resources have become much more movable.

The Stage Theory

Stage theory (Johanson and Vahlne, 1990), suggests that internationalization reflects the gradual acquisition, integration and use of knowledge about foreign markets. As firms grow, they accumulate resources; build economies of scale and excess capacity, and/or a level of “slack” that enables management to direct greater efforts to export when compared to very small firms (Bonaccoris, 1992). Firms in the international market are hypothesised to evolve only after a period of domestic maturation and home market saturation (Caves 1982, Porter 1990). According to the stage theory, firms go through distinct stages in the development of their international business operations; where they perhaps begin with unsolicited foreign orders, proceed to indirect exporting and the development of an international division (Czinkota and Wesley 1981).
This stage development of firm internationalisation is described as an incremental, risk-averse and reluctant adjustment to changes in a firm or its environment (Johanson and Vahlne 1990). Stage theory argues that smaller firms lack efficiencies, economies of scale and management acumen required to survive in the international marketplace Bates, (1989); Cromie, (1990); Kallenberg and Leicht, (1991). The theory is very relevant for this study as it seeks not only to prescribe the process of internationalisation of MSEs but also some of the key challenges facing firms international expansion. However the theory does not adequately address the factors that trigger such firms to initiate the exporting or internationalisation process only concentrating on the ongoing process. The theory does not consider the aspect of born global firms that initiate exporting right from inception and therefore do not follow the proposed stages in internationalisation.

The Theory of National Competitive Advantage
Michael Porter (1990) carried out a study of 100 industries in 10 countries seeking to establish why some nations succeed while others fail and why a nation achieves international success in a particular industry (Hill and Jain, 2005). As a result he came up with the theory of national competitive advantage. The theory hypothesized that four broad attributes of a nation shape the environment in which local firms compete and these attributes promote or impede the creation of competitive advantage. These factors are: Factor endowment: the position of factors of production to support competitiveness in a given industry. Demand conditions: the nature of home demand for the industries products. Related and supporting industries: presence or absence of suppliers industries and related industries that are internationally competitive. Firm’s strategy structure and rivalry: conditions governing how firms are created, organized and managed and the nature of domestic rivalry.

Based on Porter (1990) it’s argued that a set of strong related and supporting industries at home (the presence of customers and suppliers) may positively affect competitive advantage of home-based firms and therefore domestic MSE’s export behavior. The same argument applies to factor conditions in the home market such as availability of capital, knowledge, technology, resources, the level of production costs, and the legal system (e.g. property rights, quality of government regulation for business). For example, when resources such as finance, technology, and raw materials are widely available and easily accessible in the home market this may provide domestic firms, including MSEs, with the possibility to acquire the resources and capabilities needed in order to be able to compete on foreign markets. Also, when production costs, are perceived to be favorable in the home market, MSEs may be better able to develop international competitive (priced) products or services. However the theory of national competitive advantage addresses the national environment in enhancing competitiveness of an industry in the global arena. This does not explain factors that trigger firms to initiate the exporting operations.

The Resource Dependency Theory
Resource dependency theory assumes that the organization makes active choices to achieve objectives (Oliver, 1991). Organizational survival depends on the firm’s ability to acquire and retain resources from other actors in the immediate “task environment.” The focal organization will reduce reliance on those actors, or increase its level of influence over them, through such actions as alliances or joint ventures. For example, as customers increasingly seek globally-coordinated sourcing Kotabe, (1992), firms respond by creating alliances to strengthen relationships with key customers (Pfeffer and Salancik, 1978) and suppliers, including following these customers overseas. Resource dependency theory can also be interpreted to explain how firms might pursue direct or indirect modes of internationalization to reduce exposure to a home market which may be undesirable due to high market
saturation, production or other costs, and instead focus on other, more attractive national markets.

Resource dependency theory is also concerned with a firm’s ability to provide capacity and resources needed for exporting and with how resources are accessed (Tesfom, Lutz and Ghauri, 2004). Therefore, this theory may also be used to explain how a firm’s exposure to a desirable home market may help the firm to accumulate resources that are useful or even necessary for internationalization. A large body of empirical research investigates how a MSE’s current resource base impacts export activity (e.g. Cavusgil and Nevin, 1981; Akoozie and Enderwick, 1992; Westhead, 1995; Keeble, Lawson, Smith, Autio, Sapienza and Almeida, 2000). However, much less is known about how resource availability in the home market is related to firm export behavior. Building on resource dependency theory, it’s expected that SMEs’ ability to provide the necessary export capacity may depend on the favorability of the home market in which they operate. However, the theory is limited in that it does not capture the concept of globalisation that has brought forth the born global firms that begin global operations right from inception.

The Institutional Theory
According to institutional theory, organizations operate within a social framework of norms, values, and assumptions about what constitutes appropriate behavior (Oliver, 1997; Scott, 1995). Decisions are made not so much according to technical or economic criteria, but on the basis of what is acceptable and legitimate within a particular environment, or organization field which typically moves towards common structures and processes due to coercive, imitative, and normative expectations (DiMaggio & Powell, 1983). Institutional contexts prescribe and proscribe organizational alternatives (Hinings and Greenwood, 1988). Traditionally, institutional researchers explored external institutions such as rules, regulatory structures and agencies. Institutional theory now extends to a field composed of other firms in the same industry or unit within the same business. Institutional theory suggests that to the extent the entrepreneurial firm sees itself as part of a global (rather than local) organization field; it will progressively adopt the behaviors and processes that provide legitimacy within that field. Thus, firms may follow home-country direct/substitute competitors, foreign-country direct/substitute competitors and external financial stakeholders (banks, venture capitalists) overseas, and this gradual process may include indirect paths especially for MSE’s. Just like the previous theories, the institutional theory does not seek to explain specific factors that would influence mangers of MSEs to initiate exporting activity.

Theoretical Foundations of MSE Export Development
This study though based on the above theories of internationalization and globalization, has adopted the stage theory and the factor proportions theory. The stage theory identifies the possession of exclusive information on foreign markets by managers; need to gain economies of scale, the need to utilize excess production capacity, saturation in the domestic markets and receipt of unsolicited orders as key factors influencing the MSEs decision to initiate export market participation. The factor proportions theory indentifies encouragement by external agents, government export oriented incentives and the conditions of domestic demand conditions as key factors influencing MSEs decision to initiate export market participation.

In comparison to large multinational firms, Micro and Small Enterprises (MSEs) are typically regarded as resource-constrained, lacking the capacity to exploit international market opportunities for their goods and services (Reynolds, 1997; OECD, 2000). They lack the skills, power, knowledge and resources to operate viably in international markets (Coviello, 1999; Knight, 2000; Hollenstein, 2005). Despite liabilities of newness, small size, and foreignness, an increasing number of MSEs seeking export marketing are constrained by the
transaction costs of doing business abroad (e.g. costs associated with delivering goods or services to international customers) which are particularly cumbersome (Zacharakis, 1998). However these costs have been reduced due to technological advances in telecommunication, information technologies and transportation (OECD, 2000).

MSEs may pursue a variety of foreign market entry modes which vary significantly with respect to benefits and costs (Sharma, 2004). In the case of exporting, firms face two channel options: either export directly to customers abroad or export indirectly with the help of an intermediary (Peng and York, 2001). As the direct mode is the most common mode of MSE internationalization and well addressed in the extant literature, there is lots of focus on intermediate means to internationalize.

Indirect paths to internationalization are those “whereby small firms are involved in exporting, sourcing or distribution agreements with intermediary companies who manage, on their behalf, the transaction, sale or service with overseas companies” (Fletcher, 2004). Intermediaries include agents and distributors located either at home or abroad (Peng and York, 2001) or the local subsidiaries of multinational enterprises. MSEs form strategic linkages with large foreign firms to limit liabilities of newness, foreignness and small size and enable access to markets, technology, and reputation (Kuemmerle 2002). However in these arrangements, MSEs face several disadvantages, including a lack of full awareness of the market, access to the flow of ideas and extraordinary rent appropriation. Export intermediaries play an important middleman role in international trade, linking individuals and organizations that would otherwise not have been connected (Peng and York, 2001), especially with those in other countries. Such indirect matching may be required for transactions to take place or to be successful (Trabold, 2002). Export intermediaries often help their clients to identify customers and financing and credit sources and can provide infrastructure for distribution (Balabanis, 2000).

Intermediaries often help firms in overcoming knowledge gaps and can reduce uncertainties and risks associated with operating in foreign markets. Firms may hire export intermediaries because they may perform certain functions related to exporting better or at lower costs than the firm itself could, e.g. because they possess country-specific knowledge that the firm lacks (Li, 2004). In distant, unfamiliar markets, export-related search costs (e.g. marketing research) and negotiation costs can be very high. For this reason Peng and Ilinitch (1998) argue that manufacturers may be more likely to use intermediaries when entering these kinds of markets. Export intermediaries can also help firms to save costs associated with searching new customers and monitoring the enforcement of contracts (Peng and York, 2001). However, intermediaries also add costs to exporting, in particular transaction costs and rent extraction (Acs, and Terjesen, 2006). Furthermore, when the export transaction takes place through an intermediary, there is a loss of control for the firm that has hired the intermediary (Blomstermo, and Sharma, 2006). In sum, using an intermediary is associated with benefits as well as costs. MSEs may use intermediaries to locate customers in foreign markets, to negotiate contracts with foreign customers or to access the intermediaries’ contacts, experience and knowledge of foreign markets, Acs, and Terjesen (2006). However, little is known about MSEs’ decision to initiate and subsequent participation export activities. This study will seek to fill this gap by investigating the determinants of initial export market participation among MSEs in the commercial craft sector in Kenya.

**Empirical Review**

Within the extant literature, two popular typologies exist which suitably classify export initial. First, initial export market participation can be classified according to their internal/external environmental sources (Wiedersheim-Paul et al., 1978; Cavusgil and Nevins, 1980; Welch and Wiedersheim-Paul, 1980; Brooks and Rosson, 1982; Kaynak and
Stevenson, 1982). Internal stimuli are those which are associated with influences in the corporate environment of the firm, while external factors have their origins in the firm’s domestic or foreign external environment. Second, initial export market participation can be classified according to their proactive/reactive nature (Piercy, 1981; Johnston and Czinkota, 1982; Leonidou, 1998). Proactive factors describe those compelling forces which exploit the firm’s unique internal competences: “pull-factors” (Leonidou, 1994); while reactive factors explain the firm’s export engagement as a response to environmental pressures: push-factors (Czinkota, 1982).

In order to generate a more insightful classificatory schema, the approach proposed by Albaum et al., (1989) has been adopted for this study. These authors suggested integrating the internal/external and proactive/reactive factors to produce a classification matrix with four cells. The outcome is that the integrated typology is more comprehensive and has a greater level of explanatory power when compared with the two independent dichotomies. In order to describe the precise nature of export stimuli, this framework has been used as a basis for further discussion in this study.

**Internal-Proactive Factors**

Managerial attitude exerts a major influence in determining the exporting activities of firms. In particular, a positive interest and desire to export may be exhibited by decision makers which can be augmented by the firm’s wish to harness the skills of an export-minded manager or better utilize management resources (Reid, 1981; Ogram, 1982; Diamantopoulos and Schlegelmilch, 1990; Sullivan and Bauerschmidt, 1990; Samiee et al., 1993). These export stimuli may also concern the ambitions of decision makers for greater sales (Jaffe et al., 1988; Leonidou, 1988; Rabino, 1980; Weaver and Pak, 1990), growth (Brooks and Rosson, 1982; Leonidou, 1988; Sullivan and Bauerschmidt, 1990; Wiedersheim-Paul et al., 1978) and profit (Johnston and Czinkota, 1982; Ogram, 1982) arising from exporting activities.

Competitive elements similarly provide ingredients to influence initial export participation such as the offer of a product with unique qualities or one which requires only slight modification for the export market (Johnston and Czinkota, 1982; Kothari and Austin, 1989; Tesar and Tarleton, 1982). Furthermore, firm advantages in research and development (Jaffe et al., 1988; Sullivan and Bauerschmidt, 1990; Wiedersheim-Paul et al., 1978), marketing (Johnston and Czinkota, 1982; Karafakioglu, 1986; Tesar and Tarleton, 1982) and finance (Jaffe et al., 1985; Kothari and Austin, 1989; Tesar and Tarleton, 1982) may stimulate an interest in developing a market development strategy of exporting. On the basis that scale economies exist in production, marketing and distribution, the market expansion afforded by exporting can result in a decrease in unit costs of production which may act as a catalyst in initiating exporting activities (Joynt, 1982; Ogram, 1982; Pavord and Bogart, 1975).

In a study on export stimulation, a non exporters’ perspective, Leonidou (1985) sampled 224 non-exporting firms in Cyprus, with the aim of investigating their perception of factors stimulating export initiation. Using a number of analytical statistical techniques such as the Z-test, ANOVA test and t-test found out that factors internal to the firm were having more influence in the firms’ decision to initiate export activities. Among factors that had very high impact are; the potential for extra sales resulting from exporting, potential for additional corporate growth from exporting and the achievement of economies of scale resulting from overseas orders, the potential for extra profits to be derived from export sales and manufacturing of products with unique qualities. All these highly influential factors basically relate to traditional corporate objectives, such as expansion of sales, growth of assets, and increase in profits and reduction in costs, implying that the overwhelming majority of non-exporting firms regard exporting as a means of fulfilling their basic goals. Since these factors
are related to the firms planned goals and objectives and were consciously planned for, they
categorized as internal proactive factors.

A study by Lautanen (2000) that sought to model small firms’ decision to export in Finland
found that the among four most frequent and most important initial stimuli for exporting in
these firms only one internal reactive factor was i.e. Starting exporting as a part of an intrinsic
growth objective of the firm was significant. The study is based on detailed structured
interviews of the managing directors of 76 manufacturing small and medium sized
enterprises. The study concluded that of the most important stimuli, three related to inter-
firm and inter-person contacts outside the firms.

Leonidou (2000) carried out another study on the export initiation by indigenous
manufacturers in a small developing economy; found out that their export initiation decision
was motivated overall more by proactive rather than reactive factors. The study carried out
with 34 Cypriot exporters based on a partially structured questionnaire and five point Likert
type scales with closed questions used factor analysis and multiple regression analysis. The
study found out that majority of manufacturing firms in the study were motivated to initiate
exporting activities primarily by their desire to achieve more sales and long-term corporate
growth by engaging in exporting. The study notes that the findings of the study may have
been influenced by the small size of the domestic market in Cyprus. The study concluded that
the decision to begin exporting is affected by both reactive and proactive stimuli, each of
which has a different degree of importance. In the case of Cypriot manufacturers, the results
showed that their export initiation decision was motivated overall more by proactive rather
than reactive factors. However, this study made use of indigenous manufacturing firms which
largely represent medium to large enterprises. It’s important therefore to look at factors
influencing micro and small enterprises to initiate exporting.

Williams (2008) in a study on export stimulation of micro- and small locally owned firms
from emerging environments, interviewed 44 Micro and Small locally owned exporters in the
manufacturing and agriculture sectors in Jamaica. The study had adopted the Albaum et al.,
(1989) classifications typology that ranked each factor as internal/proactive, internal/reactive,
external/reactive or external/proactive. Using the mean, a descriptive statistic to rank factors
based on their level of importance in motivating the firm to initiate exporting, found out that
factors in the typology internal/proactive had the highest mean scores. It implies that this
category has the highest influence on the decision to initiate exporting. In other words, it
implies that the decision to initiate exporting is induced by internal dynamics in the firm
rather than external factors. That is, export initiation decision is systematic and planned rather
than a mere response to external pressures.

In examining the factors stimulating initial export activity in a developing country, Ibeh et al.,
(2008), sampled 226 Nigerian firms using the survey questionnaire and depth interview
methods. Data analysis involved calculation of the mean scores for and correlation among 24
export stimulation items and factor analysis. These data analysis methods particularly mean
and factor analysis will be adopted for this study. The findings indicate that the composite
factors that appear to influence initial export activity among the surveyed Nigerian firms are
growth aspirations, export opportunities’ search, the need to exploit internal strengths, and
managerial interest and support. The study shows that all but two of these factors—weak
domestic demand and response to competitors’ activities—suggest proactive motivations. It
would, therefore, appear that proactive factors may be more important than reactive factors in
explaining the initial export decision of SSA firms.

Internal-Reactive Factors

Due to the size disadvantage of MSEs, they seek strategies of expanding the customer base
and hence gain the benefits of economies of scale through exporting. By expanding its
customer base, it will most likely reduce the total risk and dependence on any one market, suggesting that exporting may be perceived as a viable market development strategy (Jaffe and Pasternak, 1994; Ogram, 1982; Pavord and Bogart, 1975). Certain industries encounter a seasonal demand cycle for products which may stimulate exploration of foreign market export opportunities to offset the effects of seasonality (Joynt, 1982; Simpson and Kujawa, 1974; Wiedersheim-Paul et al., 1978). The desire to harness unused resource capacity in firms (Diamantopoulos and Schlegelmilch, 1990; Ghauri and Kumar, 1989; Kaynak, 1992; Kaynak and Stevenson, 1982; Leonidou, 1988; Roux, 1977) and the accumulation of unsold stock due to overproduction (Brooks and Rosson, 1982; Jaffe et al., 1988; Kothari and Austin, 1989; Leonidou, 1988; Rabino, 1980) will also tend to stimulate further the search for expansion opportunities via export participation.

Leonidou (2000) study on the export initiation by indigenous manufacturers in a small developing economy found out that majority of manufacturing firms in the study were motivated to initiate exporting activities primarily by the saturation of the domestic market. So to reduce dependence on the domestic markets and therefore get off the problem of stagnating domestic market, the firm growth opportunities by initiating export participation. This is supported by Ibeh et al., (2008) that found out that weak domestic demand had a significant influence on the firms’ decision to initiate export participation.

**External-Proactive Factors**

If a firm is able to expand its customer base, it will most likely reduce the total risk and dependence on any one market, suggesting that exporting may be perceived as a viable market development strategy (Ogram, 1982; Jaffe and Pasternak, 1994; Pavord and Bogart, 1975). Certain industries encounter a seasonal demand cycle for products which may stimulate exploration of foreign market export opportunities to offset the effects of seasonality (Simpson and Kujawa, 1974; Wiedersheim-Paul et al., 1978; Joynt, 1982). The desire to harness unused resource capacity in firms (Roux, 1977; Kaynak and Stevenson, 1982; Leonidou, 1988; Ghauri and Kumar, 1989; Diamantopoulos and Schlegelmilch, 1990; Kaynak, 1992;) and the, contrary, accumulation of unsold inventory through overproduction (Rabino, 1980; Brooks and Rosson, 1982; Jaffe et al., 1988; Leonidou, 1988; Kothari and Austin, 1989) will tend to stimulate further the search for expansion opportunities via exporting channels.

Leonidou (1985) observed that factors originating from third parties either at home or abroad, such as pleas to begin exporting by government or private organizations and foreign orders received either after participation in trade fairs/missions or fortuitously, had a low motivating impact on participant firms. He concludes that in part, this can be attributed to a limited awareness of and exposure to these stimulating factors, thus making their appreciation difficult, particularly by firms with no previous export experience. However, Lautanen (2000) study found that getting the idea through a personal contact outside the firm has a significant influence on the managers’ decision to initiate export participation. In the Ibeh et al., (2008), study, government export incentives received high ranking as a factor influencing firms’ decision to initiate export market participation.

**External-Reactive Factors**

A common means of initial export engagement is where the firm may learn of a prospect by receiving an unsolicited inquiry from abroad (Cavusgil, 1980). This inquiry may result in an order which can initiate export activity and subsequent unsolicited orders may be received by the firm which could mobilize a response for further international involvement (Simpson and Kujawa, 1974; Karafakioglu, 1986; Ghauri and Kumar, 1989; Sullivan and Bauerschmidt, 1990; Diamantopoulos and Schlegelmilch, 1990; Kaynak, 1992).
Circumstances within the domestic market can, in certain instances, influence firms to consider exporting as a reaction to the saturation or decline in domestic sales (Leonidou, 1988; Sullivan and Bauerschmidt, 1990; Weaver and Pak, 1990), logistical proximity to sea ports, airports and other freight-forwarding intermediary channels (Johnston and Czinkota, 1982), and the initiation or expansion of exporting activities by domestic competitors (Rabino, 1980; Ghauri and Kumar, 1989; Sullivan and Bauerschmidt, 1990; Jaffe and Pasternak, 1994). It has also been found that specific export destinations may appear attractive to firms if there are favorable foreign exchange rates between the domestic currency and the target export country currency. This may, in turn, allow financial gains to be made from international monetary transactions (Brooks and Rosson, 1982; Sullivan and Bauerschmidt, 1990). Furthermore, regulatory issues pertaining to reductions in import tariffs and relaxed product regulations in overseas markets may encourage firms to view export marketing strategies to those countries more sympathetically (Sullivan and Bauerschmidt, 1990; Jaffe and Pasternak, 1994).

The receipt of unsolicited orders from abroad and international movements by domestic competitors had a very low influential role in this study (Leonidou 1985). This can be partly explained by the fact that most of the non-exporting firms, for various reasons, such as non-registration in directories, wrong address, and language difficulties do not have the opportunity of obtaining fortuitous orders from foreign customers.

Lautanen (2000) study found out that among the most important factors influencing decision to initiate export participation, three were related to inter-firm and inter-person contacts outside the firms. This study concludes that external factors like receipt of unsolicited orders and domestic competition ranks very high in influencing manager’s decision to initiate export activities. Ibeh et al., (2008) also found out that response to Dependent Variable competitors’ activities has a significant influence on the firms’ decision to initiate export participation.

Conceptual Framework
The main variable for this study will be initial export market participation among MSEs as the dependent variable, which is being influenced by internal proactive factors, internal reactive factors, external proactive factors and external reactive factors as the independent variables.
Research Methodology

This study adopted a combination of explanatory research design and descriptive research design specifically a cross-sectional research design. According to Sanders et al (2007) explanatory research design seeks to establish a casual relationship between variables. Cooper and Schindler (2003) ascertain that an explanatory study goes beyond description and attempts to explain the reasons for the phenomenon that the descriptive study only observed. Whereas descriptive study would look at what is going on, an explanatory study seeks to explain why it is going on (Sekaran, 2003). The researcher has also used theories and hypothesis to account for the forces that caused a certain phenomenon to occur (Cooper and Schindler, 2003).

A cross-sectional study seeks to measure the relationship of variables at a specified time either to describe the incidence of a phenomenon and how the variables are related (Sanders et al, 2007). The population of interest was thoroughly investigated in their places of operation so as to freely give more information without the manipulation of
unfamiliar environments in order to understand the factors that influence MSEs decision to initiate export market participation.

The Empirical Model

Guided by the objectives, this study made use of multiple regression analysis to develop a self-weighting estimation equation which helped to predict values for a dependent variable from the values for several independent variables (Cooper and Schindler 2003). The study sought to predict initial export market participation which is the dependent variable, on the basis of internal proactive factors, internal reactive factors, external proactive factors and external reactive factors which are the independent variables. The study adopted the following multiple regression equation:

\[ Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \beta_5 D_S + \beta_6 D_A + \epsilon \]

- \( Y_i \) = initial export market participation: the dependent variable.
- \( \beta_0 \) = is the Y intercept/constant.
- \( \beta_1 - \beta_6 \) = coefficient of regression which measures how strong each independent variable influence the dependent variable i.e. initial export market participation.
- \( X_1 \) = is the Internal Proactive factors
- \( X_2 \) = is the Internal Reactive factors
- \( X_3 \) = is the External Proactive factors
- \( X_4 \) = is the External Reactive factors
- \( D_S \) = the dummy variable for the size of the firm where 1=small and 0=micor enterprise
- \( D_A \) = the dummy variable for age of the firm where 1= below and including two years and 0= above two years.
- \( \epsilon \) = the error term

Target Population and Study Area

The target population for this study was MSEs in the Commercial Craft sector in Kenya, particularly those actively involved in the export business. The population was based on commercial craft enterprises that have been registered with the export promotional council, and have participated in exporting their products in the last one year i.e. at least by December 2010. The target respondents comprised of all the managers of MSEs that meet the above criteria. There are 140 MSEs in the commercial craft sector in Kenya that meet the above requirements (RoK, 2003). Due to geographical dispersion of the said MSEs, the study categorized them into four zones depending on the geographical location of the firm as follows; zone one represents Nairobi and its environs, zone two represents western region, zone three represents upper eastern region and zone four represents coast region. This is summarized in table 3.2

<table>
<thead>
<tr>
<th>ZONE</th>
<th>POPULATION PROPORTION</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zone 1 (Nairobi, Kikuyu)</td>
<td>116</td>
<td>83%</td>
</tr>
<tr>
<td>Zone 2 (Nakuru &amp; Kisii)</td>
<td>6</td>
<td>4.3%</td>
</tr>
<tr>
<td>Zone 3 (Machakos &amp; Makueni)</td>
<td>5</td>
<td>3.7%</td>
</tr>
<tr>
<td>Zone 4 (Coastal Region)</td>
<td>13</td>
<td>9%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>140</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: EPC (2010)
The respondents for the study was the managers of MSEs in the Commercial Craft sector that are registered with the export promotion council. To participate in the study, the MSEs must have participated in export marketing at least for last one year i.e as at December 2010, to allow examination of export market participation experience.

**Sampling Technique and Sample Size**

The used purposive sampling technique, specifically judgmental sampling method to pick one Zone from the four zones. According to Sekaran (2003), judgmental sampling involves the choice of subjects who are most advantageously placed or in the best position to provide information required. Due to the high concentration of MSEs in the Commercial Craft sector registered with EPC, in Zone one i.e. 83%, the study purposively sampled Nairobi and its environs. Selecting firms from Zone one is also informed by the results of study on export behavior of MSEs in Kenya that found out that MSEs from Nairobi have a higher propensity to export than those from other parts of the country (World Bank, 2004). There were 116 MSEs in zone one that meets the requirements of the study. The study took a census of all the 116 MSEs in commercial craft sector in zone one.

**Unit of Analysis**

In this study the unit of analysis was the MSEs in the Commercial craft sector that are registered with the export promotion council. In order to qualify to be included in the study, the commercial craft MSE must have registered with EPC as at 31st December 2010, which is an indication of intention to initiate export market participation. In each MSE, the manager was the respondent for the study.

**Data Collection Instruments**

The research study used primary data that was collected by use of both closed and open ended questionnaire. The use of semi-structured questionnaire was deemed necessary to enable the researcher to collect both qualitative and quantitative data. The researcher also used secondary data by conducting a detailed review of various literatures like financial statement and marketing plans and reports of the target firms.

A questionnaire was developed based on the objectives of the study. The questions had been designed to cover general background information of the respondents relating to initial export market participation based on the conceptual framework. The questionnaire consisted of five sections that correspond to the main variables of the study.

**Section A: General Information:** seeking general information about the respondents and their firms.

**Section B: Level of Export Market Participation:** seeking information on the Levels of export market participation of MSEs in the commercial craft sector in Kenya.

**Section C: Internal Proactive Factors:** Seeking information on the effect of internal proactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya.

**Section D: Internal Reactive Factors:** Seeking information on the effect of internal reactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya.

**Section E: External Proactive Factors:** seeking information on the effect of external proactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya.
Section F: External Reactive Factors: seeking information on the effect of external reactive factors on the initial export market participation among MSEs in the commercial craft sector in Kenya.

Reliability of the instruments
Reliability of a measure is an indication of the stability and consistency with which the instrument measures the concept and helps to assess the goodness of the measure (Sekaran 2003). The study achieved reliability of the instruments through two key steps. First, the study adopted from literature theoretically sound concepts that have been tested for reliability by other researchers. Then Cronbach’s alpha was used as a measure of internal consistency. Cronbach’s Alpha is a reliability coefficient that indicates how well items in a set are positively correlated to one another (Sekaran 2003). Cronbach’s Alpha is computed in terms of the average interconnections among the items measuring the concept; with the closer the measure is to 1, the higher the internal consistency reliability (Independent variables on the dependent variable). Generally, reliabilities of 0.7 range is considered acceptable and those over 0.8 good (Sekaran, 2003).

Cronbach Alpha for Reliability Assessments

<table>
<thead>
<tr>
<th>Variables</th>
<th>Number of items</th>
<th>Cronbach Alpha Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal-Proactive Factors</td>
<td>5</td>
<td>0.8931</td>
</tr>
<tr>
<td>Internal-Reactive Factors</td>
<td>5</td>
<td>0.7437</td>
</tr>
<tr>
<td>External-Proactive Factors</td>
<td>5</td>
<td>0.9312</td>
</tr>
<tr>
<td>External-Reactive Factors</td>
<td>5</td>
<td>0.7781</td>
</tr>
</tbody>
</table>

As shown in table 3.3 Cronbach alpha values for all the variables; internal-proactive factors, internal-reactive factors, external-proactive factors and external-reactive factors were greater than 0.7. From these findings it can be concluded that the constructs measured had the adequate reliability for the subsequent stages of analysis since all the Cronbach Alpha values were greater than 0.7.

Validity of Instruments
Validity is the degree to which an instrument measure what it purports to measure. It estimates how accurately the data obtained in the study represents a given variable or construct in the study (Mugenda, 2008). This research study took all the MSEs in the commercial craft sector registered with EPC in the study area (Zone one and four) as a way to eliminate content validity. The study has also adequately reviewed related literature and modeled the study on theoretically sound and commonly applied classification schema of export market participation to reduce construct validity. A pilot test was carried out with five MSEs to test the data collection instruments before the main survey. The five MSEs were conveniently selected from Wamunyu handcraft society in Machakos County and were not included in the final sample. The pilot-test was used to enable the researcher check the validity of the instruments of data collection. The results of the pilot test revealed that the questionnaire was easy to answer and the questions were easily understood by the respondents. To complement this study also made use of expert opinion to attest the content validity of the instrument (Sekaran, 2003). Pilot testing also enabled the researcher estimate with some accuracy the average completion time. Feedback was used to improve the data collection instruments by eliminating any ambiguities and inadequate terms.
Data Collection Procedure

Data collection process began with getting an introduction letter from export promotion council to conduct the study. Data was collected over a period of three weeks. The research study made use of four research assistants who were recruited on the basis of their familiarity with the study area and had previous data collection experience. The researcher used assistant’s who were in their final year post graduate studies (MBA) from Kenya Methodist University, Nairobi campus. The researcher further trained the research assistants and properly briefed them of what was expected of them. The research assistants also participated in the pilot testing of the questionnaire as part of practical training. Before commencing data collection the researcher sought appointment with the managers of the MSEs under study, after which the research assistants proceeded to self-administer questionnaires to the managers of the sampled MSEs under the supervision of the researcher. The initial contacts and appointments were aided by the fact that there was an exhibition of Kenya commercial craft exporters at the Sarit Centre a week before commencing data collection. During the exhibition which was attended by a large majority of the targeted MSEs, the research booked appointments and got contacts from the exhibitors.

After collecting data from the representative sample through the questionnaire, data was then edited the same day to check for completeness, consistency and reliability of data. The next step involved coding the responses in the coding sheets by transcribing the data from questionnaire by assigning characters symbols (numerical symbols). This was be followed by screening and cleaning of data to make sure there no errors. After this data was transferred to SPSS for analysis.

Data Analysis and Reporting

Data analysis process involved use of descriptive statistics like mean and percentages and regression analysis to determine the predictive effect of the determinants of initial export market participation. Due to the large number of variables that were hypothesized to influence initial export market participation, the study made use of exploratory factor analysis procedure, which is considered appropriate for data reduction and identification of underlying structure amongst variables (Hair, et al., 1998). Factor analysis is a technique of statistically identifying a reduced number of factors from a large number of measured variables (Zikmund, and Babin 2007). For this study, there were 20 variables to be measured. The decision on the number of factors to retain for examination was made based on scree tests and the stability of factor solutions across different factor analytical methods (Hair, et al., 1998).

The study sought to address four objectives whose data was analyzed as follows.

The first, second, third and fourth objectives sought to investigate the effects of the internal-proactive, internal-reactive, external-proactive and external-reactive factors on export market participation among commercial craft sector in Kenya. To establish the relationship between the independent variables; internal-proactive factors, internal-reactive factors, external-proactive factors and external-reactive factors and the dependent variable initial export market participation among MSEs in the commercial craft sector in Kenya, the researcher made use of mean and multiple regression analysis. Data analysis was done with the aid of the Statistical Package for Social Sciences (SPSS). The open ended questions were analyzed qualitatively by grouping common themes together and drawing inferences from the findings.

To test the stated hypothesis, the P-value was used to test the significance of each independent variable to the dependent variable. If P value is less than 0.05, we accept
the stated hypothesis that the variable is significant. For this study, if the P value is less than 0.05, we accept the stated hypothesis that the independent variables (i.e. internal-proactive factors, internal-reactive factors, external-proactive factors or the external-reactive factors) have a significance influence on the dependent variable (initial export market participation).

**RESEARCH FINDINGS**

**Response Rate**

Out of the 116 participants targeted, a total of 102 questionnaires properly filled and usable questionnaires were returned. This represented 87.93% response rate that is the basis of the analysis and the findings presented in this chapter. Mugenda and Mugenda (2003) and Saunders, et al., (2007) have argued that in research a response rate of above 50% is adequate, 60% is good and a response rate of over 70% is very good. Therefore, the 87.9% response rate achieved in this study formed an acceptable basis for drawing conclusions.

**Internal Proactive factors**

Descriptive analysis of the 20 studied factors produced a preliminary indication of the respondents’ perception of the effects of the explored determinants of export market participation on their decision to initiate export participation. The first specific objective of the study was to determine the effect of internal-proactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya. There were five internal-proactive factors investigated in the study which are: the need to achieve economies of scale, special management interest in exporting, possession of competitive advantage, need to exploit potential growth and production of goods with unique qualities. From the findings production of goods with unique qualities, the need to achieve economies of scale and the need to exploit potential for growth registered very high mean of 4.25, 4.08 and 4.02 respectively from a 5 point likert scale. This indicates that majority of the MSEs in the commercial craft sector studied felt that the above factors greatly influenced decision to initiate export market participation. Possession of competitive advantage had a mean of 3.26 while special management interest in export marketing had a mean of 2.74 indicating they influenced the MSEs decision to initiate export market participation to some extent. The findings were in line with the findings of Leonidou (1995) who ranked need to achieve economies of skills, Leonidou (1998), Katsiekeas and Piercy (1993) Jain and Kapoor (1996) need to exploit potential for extra growth and Leonidou (2007) need to benefit from production of unique products has having high influence on firms initial export market participation.

**Internal Reactive Factors**

There are five internal-reactive factors investigated in the study namely: to dispose off accumulated orders, to utilize excess production capacity, to maintain sales of seasonal products, to reduce dependence on domestic markets and to offset stagnation in domestic sales. The findings showed that the respondents perception of the effects of various internal reactive factors in relation to their influence in the decisions made by the respondents on the initiation of export market participation. In a five 5 point likert scale, the need to dispose accumulated orders had 2.73, the need to utilize excess production capacity 2.69, need to offset stagnation in domestic sales 2.67, Need to reduce dependence on domestic market 2.55 while need to maintain sales during low demand season 2.50. This implies that generally, the studied MSEs in the commercial craft sector in Kenya ranked the effect of internal reactive factor to have little influence
on their decision to initiate export market participation. This is in support to a number of findings of Katsikeas and Piercy, (1993), Jain and Kapoor (1996), and Leonidou (2007) that found out that internal reactive factors have little influence on the firms decision to initiate export market participation.

**External Proactive Factors**

Five external proactive factors were studied namely: Encouragement by external agents, Identification of better opportunities abroad, Possession of exclusive information on foreign market, Provision of government export orientation incentives and Receipt of order from foreign trade affairs or mission. Findings on descriptive analysis showed the perception of the studied MSEs on the effect of external proactive factors decision on their decision to initiate export market participation. Provision of government export orientation incentives and encouragement by external agents like EPC had very high ratings with a mean of 4.25 and 3.72 respectively indicating they are perceived to have influence MSEs decision to initiate export market participation. Identification of better opportunities abroad with a mean of 3.38 and Possession of exclusive information on foreign market with a mean of 2.96 have moderate effect on MSEs decision to initiate export market. Among the external proactive factors, its only receipt of order from foreign trade affairs or mission with a mean of 2.01 that appear to have little effects on MSEs decision to initiate export market participation. These results support the arguments of Katsikeas and Piercy, (1993) and Leonidou, (2007) that government export oriented incentives have very little influence on the MSEs decision to initiate export market participation.

**External Reactive Factors**

Five external reactive factors were studied namely: Initiation of export by domestic competitors, intense competitor in the domestic market, Prevalence of favourable foreign exchange rates, Receipt of unsolicited orders from abroad and Shrinkage of domestic market. Findings indicated that most of the MSEs in the commercial craft sector studied perceived external proactive factors to have little effect on their decision to initiate export market participation. All the five studied external reactive factors have mean of less than 2.5 on a five point scale indicating the ranking of little or no extent in their effect on MSE decision to initiate export market participation. Intense competitor in the domestic market has the highest mean of 2.42, followed by Shrinkage of domestic market with a mean of 2.40 and Initiation of export by domestic competitors with a mean of 2.36, implying that the three have little effect on MSE decision to initiate export market participation. Receipt of unsolicited orders from abroad with a mean of 1.92 and Prevalence of favourable foreign exchange rates with a mean of 1.67 were ranked to have little or no effect on MSEs decision to initiate export market participation among the studied firms. These results contradict findings of studies carried out in large developed countries Zafarullah et al., (1998), Bell and Young, (1998) who ranked external reactive factors particularly receipt of unsolicited orders from abroad very high. The findings therefore supports the results of Weaver and Pak, (1990), Leonidou, 1995, 1998, Jain and Kapoor, 1996 and Ibeh et al., (2007), who found internal reactive factors to have little effect on the initial export market participation from developing countries.
Regression Analysis Results and Test Hypothesis

**Internal-Proactive Factors**

In order to determine the effect of internal-proactive factors on initial export market participation among MSEs, a Spearman's Rho Correlation Analysis was conducted. A Spearman Correlation Test was performed whereby the correlation coefficient was computed. A correlation coefficient ranges from -1 to +1 (George and Mallery, 2003). The sign of the correlation coefficient indicates the direction of the relationship (positive or negative). The absolute value of the correlation coefficient indicates the strength, with larger absolute values indicating stronger relationships. If the significance level (P-value) is very small (less than 0.05) then the correlation is significant and the two variables are linearly related. If the significance level is relatively large (greater than 0.05) then the correlation is not significant and the two variables are not linearly related. Even if the correlation between two variables is not significant the variables may be correlated but the relationship is not linear. The Spearman Correlation Analysis/test was therefore computed.

**Internal-Proactive Components versus Initial Export Participation**

<table>
<thead>
<tr>
<th>Internal-Proactive components</th>
<th>Initial Export Market Participation</th>
<th>Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need to achieve economic of scale</td>
<td>Correlation Coefficient (Spearman's rho)</td>
<td>-.251</td>
</tr>
<tr>
<td>Sig. (P-Value) p</td>
<td></td>
<td>.123</td>
</tr>
<tr>
<td>Special management interest in export marketing</td>
<td>Correlation Coefficient (Spearman's rho)</td>
<td>-.131</td>
</tr>
<tr>
<td>Sig. (P-Value)</td>
<td></td>
<td>.426</td>
</tr>
<tr>
<td>Possession of competitive advantage</td>
<td>Correlation Coefficient (Spearman's rho)</td>
<td>.004</td>
</tr>
<tr>
<td>Sig. (P-Value)</td>
<td></td>
<td>.981</td>
</tr>
<tr>
<td>Need to exploit potential growth</td>
<td>Correlation Coefficient (Spearman's rho)</td>
<td>.068</td>
</tr>
<tr>
<td>Sig. (P-Value)</td>
<td></td>
<td>.683</td>
</tr>
<tr>
<td>Production of goods with unique qualities</td>
<td>Correlation Coefficient Spearman's rho</td>
<td>.006</td>
</tr>
<tr>
<td>Sig. (P-Value)</td>
<td></td>
<td>.972</td>
</tr>
</tbody>
</table>

The findings in table above showed a negative correlation coefficient regarding the need to achieve economic of scale ($r = -0.251, p = .123$) and special management interest in export marketing ($r = -0.131, p = .426$) which are not statistically significant ($p > 0.05$) implying that the need to achieve economic of scale and special management interest in export marketing have a negative correlation with initial export market participation.

In addition, the Possession of competitive advantage ($r = 0.004, p = .981$), need to exploit potential growth ($r = 0.068, p = .683$) and production of goods with unique qualities ($r = 0.006, p = .972$) had a weak positive correlation coefficient implying that they have a positive relationship with initial export market participation. However, the non significant p-value ($p > 0.05$) of these variables shows a non-linear relationship between them and initial export market participation. The low values for the test statistics (correlation coefficient) indicate that the relationship between the two variables is a fairly weak one.
These findings therefore show that the need to achieve economic of scale and special management interest in export marketing had a negative effect on initial export market participation by MSEs while possession of competitive advantage, need to exploit potential growth and production of goods with unique qualities had a weak positive effect on initial export market participation among MSEs in the commercial craft sector in Kenya.

**Summary of the Results of Hypothesis Testing**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>construct</th>
<th>Results</th>
<th>explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>$HO_1$</td>
<td>Internal proactive factors</td>
<td>Reject</td>
<td>Internal proactive factors have a positive and statistically significant effect on initial export market participation among MSEs in the commercial craft sector in Kenya.</td>
</tr>
<tr>
<td>$HO_2$</td>
<td>Internal Reactive factors</td>
<td>Accept</td>
<td>Internal reactive factors have no statistically significant relationship with initial export market participation among MSEs in the commercial craft sector in Kenya.</td>
</tr>
<tr>
<td>$HO_3$</td>
<td>External proactive factors</td>
<td>Reject</td>
<td>External proactive factors have a positive and statistically significant effect on initial export market participation among MSEs in the commercial craft sector in Kenya.</td>
</tr>
<tr>
<td>$HO_4$</td>
<td>External Reactive factors</td>
<td>Accept</td>
<td>External reactive factors have no statistically significant relationship with initial export market participation among MSEs in the commercial craft sector in Kenya.</td>
</tr>
</tbody>
</table>

**Multiple Linear Regression Analysis**

The multiple linear regression models for the study was as follows;

$$Y = \alpha_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \beta_5 D_S + \beta_6 D_A + \epsilon$$

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Coefficients</th>
<th>T-statistics</th>
<th>Sig. level (P-Value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant ($\alpha_0$)</td>
<td>.243</td>
<td>2.238</td>
<td>.022*</td>
</tr>
<tr>
<td>Internal Proactive Factors</td>
<td>-.110</td>
<td>-.711</td>
<td>.482</td>
</tr>
<tr>
<td>External Proactive Factors</td>
<td>-.643</td>
<td>-3.462</td>
<td>.002*</td>
</tr>
<tr>
<td>External Reactive Factors</td>
<td>.165</td>
<td>.951</td>
<td>.349</td>
</tr>
<tr>
<td>Age of the Firm (Da)</td>
<td>-.044</td>
<td>-.293</td>
<td>.771</td>
</tr>
<tr>
<td>Size of the Firm (Ds)</td>
<td>-.003</td>
<td>-.020</td>
<td>.000*</td>
</tr>
</tbody>
</table>

The significant variables were therefore extracted by applying the t-test to the independent variables at 0.05 (5%) level of significance. The findings in table 4.21 show that internal proactive factors, external proactive factors and size of the firm were statistically significant at 5% level of significance ($P<0.05$) while internal Reactive, external Reactive Factors and age of the firm were not statistically significant at 5% level of significance($P>0.05$). The non-significant variables internal reactive factors,
external reactive factors and age of the firm were therefore removed from the model since they had no significant effect on initial export market participation.

**SUMMARY**

Though the MSEs sector has increasingly been recognized and appreciated for its contribution to economic development especially in developing countries, they have not been able to realize their full potential due to limited markets. In Kenya export market participation at the firm level appears stagnant and limited to traditional products. There has been little research on what motivates firms especially MSEs to initiate export marketing. Earlier studies on the determinants of initial export market participation are few and present contradicting findings on factors that influence decision makers to initiate export market participation. However, as largely emphasised in the Kenya vision 2030 and other policy documents, the MSE sector is critical for the economic development of the country. Linkage to markets especially participation of MSE in the international market is essential to improve the productivity of the said MSEs and the country’s export performance at large. The current study therefore sought to investigate determinants of initial export market participation among MSEs in Kenya with special reference to commercial craft sector.

The study objective was to investigate the effects of the internal proactive, internal reactive, external proactive and external reactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya. The study used an explanatory research design. Data was collected using semi structured questionnaire. Data collected were analysed using descriptive, inferential and content analysis. Firstly, the study sought to assess if the data collected was reliability to measure the various variables in the study. The Cronbach alpha values for all the variables; internal-proactive factors, were all found to be satisfactory (that greater than 0.7).

Factor analysis with varimax rotation was conducted to identify the factor structure and reduced the number of factors from a large number of measured variables. The factors which did not meet the minimum loading threshold (that is; 0.3) were eliminated from the factor structure. Through the use of factor Analysis, five factors which did not meet the minimum threshold were extracted and removed from the subsequent analysis.

Descriptive statistics were used to describe and summarize data, while inferential statistics were used to predict the effect of independent variables internal proactive, internal reactive, external proactive and external reactive factors on the initial export market participation. The study used the spearman Rho correlation test and multiple linear regression analysis to determine the type of relationship between the dependent and independent variables and the level of significance within 95% (p>0.05) confidence interval. The overall fit of the model was tested using the ANOVA test and adjusted R square. The results of the ANOVA test show an adjusted R square of 0.741 implying that the variables tested explained 74% of the variations of the dependent variable. The model adopted registered an F-statistics of 2.552 which was significant at 0.05 (p> 0.05) implying that the model adopted for the study was significant and variables tested fitted well in the model.

The first objective of the study was to determine the effect of internal proactive factors on initial export market participation. The findings of the study reveal that generally internal proactive factors are positively influenced the MSEs decision to initiate export market participation. This lead to rejecting the null hypothesis and accepting the alternative hypothesis that, there is a relationship between internal proactive factors and
initial export market participation among MSEs in the commercial craft sector in Kenya.

The second objective of the study was to investigate the influence of internal reactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya. The results of the study revealed a negative insignificant relationship between internal reactive factors and initial export market participation among MSEs in the commercial craft sector in Kenya. This implies that generally, internal reactive factors do not influence the MSEs decision to initiate export market participation. This led to accept the null that there is no relationship between internal reactive factors and initial export market participation among MSEs in the commercial craft sector in Kenya.

The third objective of the study sought to establish the effect of external proactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya. The results of the study revealed a significant positive relationship between external proactive factors and initial export market participation. This implies that generally external proactive factors particularly provision of government export oriented incentives positively the MSEs Managers decision to initiate export market participation.

The fourth objective of the study was to determine the effect of external reactive factors on initial export market participation among MSEs in the commercial craft sector in Kenya. The findings of study revealed a negative insignificant relationship between external reactive factors and initial export market participation among MSEs in the commercial craft sector in Kenya. This implies that overall external reactive factors have no influence on the MSEs Managers decision to initiate export market participation. This led to accepting the null hypothesis that there is no relationship between external reactive factors and initial export market participation among MSEs in the commercial craft sector in Kenya.

The study findings also revealed that age of the firm was insignificantly associated with the MSEs probability of initiating export market participation. However, the study revealed that the size of the firm is positively related to the MSEs probability of initiating export market participation.

Conclusions

The role of exports in economic development has been widely acknowledged globally due to potential to stimulate growth in a number of ways including production and demand linkages, economies of scale due to larger international markets, increased efficiency, adoption of superior technologies embodied in foreign-produced capital goods, learning effects and improvement of human resources, increased productivity through specialization and creation of employment (Were, 2002). Kenya export sector holds enormous potential in realization of the countries vision 2030, as the volume of world exports has continued to rise over time. In order for Kenya firms to achieve competitiveness in the global marketplace, there is need to understand of the factors that influence their export participation.

Review of extant literature on export market participation reveals inadequate studies on initial export market participation in developing countries, with the focus of most studies being more developed economies. Further, despite the recognition of the contribution of MSE sector in economic development especially in developing countries very little has been documented on their export market participation. Among the existing studies, many have focused on the barriers to export market. This leaves a gap
in the body of knowledge on the determinants of initial export market participation. It is on this premise that the current study was conceptualised to investigate the determinants of initial export market participation among MSEs in the commercial craft sector in Kenya.

Review of various studies and existing government trade statistics show there is an increasing participation of MSEs in the export market. The findings of this study revealed that MSEs in the commercial craft sector are influenced to initiate export market participation largely by proactive factors. To realize the full potential of MSEs in the global market place, measure need to be put in place to create awareness promote the development of such factors as a way of helping more MSEs to initiate and sustain export market participation.

**Recommendations**

Among the policy issues coming from the findings of this study is the need for identification and greater appreciation of the unique differences in the type of determinants of initial export market participation between developed countries and developing countries like Kenya. With such a realisation, policy makers and governments of developing countries should base their policy development on empirical findings from developing economies instead of generalising the findings from developed countries to apply to their case while the economic other situations are different. The findings of this study are therefore important to the policy makers in the Kenyan government particularly key decision makers in the department of external trade in the ministry of trade and the export promotion council, as a guide in developing relevant policy guidelines for promoting participation of MSEs in export market.

The results of this study are also important to other government agencies like the Kenya investment authority (KenInvest) as a basis for promoting investment opportunities in production, commercialisation and particularly exporting of the commercial craft. This can be done through encouraging linkages between MSEs in the commercial craft sector with large firms and particularly export intermediaries to help bridge the knowledge gap among MSEs seeking to export their products.

The importance of the key determinants of export participation is not relevant until they can to the attention of the key decision makers of the target firms. The findings of this study are therefore important to the Association of Makers and Exporters of Gifts and Allied articles of Kenya (AMEGA) in lobbying for policy development to help their members. The association can also use the findings of this study as a basis for development of sensitization campaigns among their members and particularly those not actively exporting, to enable them initiate export market participation.

Researchers in the universities and other research agencies in Kenya and around the world will find the results of this study important as a basis for empirical review and modelling their studies on.

The results of the study are important to the owner/managers of the MSEs in Kenya and other developing countries as a basis for appreciating and acting on the key factors that can influence their decision to initiate export market participation. Given the relative importance of proactive factors as the main determinants influencing MSEs to initiate export market participation in Kenya, policy makers are urged to prioritize export promotion programmes that would seek to improve the firms’ internal competences in identification and acting on such market knowledge.
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