Market Opportunities for Daray Food Trading Company in European Agro-food sector.

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Economic globalization in the modern world has brought about both challenges and opportunities for international trade. An increased flow of labor, capital as well as production factors across the boundaries; outsourcing in manufacturing; and increased opportunities for off-shore production are some of the opportunities that has been brought up by the international economy. SMEs around the world conduct its processes on a regular basis today. Every firm analyses which country’s market is valuable and profitable for its own business growth. Hence, Daray’s current target market is the European union (EU) Agro-industry.

However, the entry of the EU market is quite strict and high demanding environment for the SMEs from developing countries due to its constant changes in legislations, foreign treaties and poor knowledge/perspective on goods from developing countries. All these factors scare away SME’s from internationalizing into the above mentioned market. On the other hand there are incentives that the EU has placed to encourage the SMEs from certain countries, therefore, a firm needs to study the legal and non-legal requirements, precise analysis of internationalization processes, Market opportunities, and supply chain. In the case of the commissioner Daray food trading Co. Modes of entry to foreign market and market opportunities in EU agro-industry should be studied.

This research paper discuss the study on the internationalization process in general and analysis of the EU Agro-industry market using the Uppsala model. This way, the researcher provides the commissioner and the reader with deep knowledge on internationalization as a model of entering the market and offering possible solutions for the existing challenges the commissioner is fronting now.
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1 Introduction

The recent decades have witnessed steady structural and technological changes which have made it easier for businesses to take part and contribute to the international economy. In the light of a progressively dynamic market, internalization presents fresh opportunities to small and medium enterprises (SMEs) and has turned to an essential part of their business strategic practices to ensure they grow, expand across borders, and remain competitive.

Universal competition is attaining additional strength, that even domestic companies who at no time thought of internationalizing now see themselves abroad. Additionally, company's internationalization is turning to be more in practice since it presents fresh and probably more profitable markets that have the ability to enhance its competitiveness and enables access to fresh product ideas, manufacturing, innovations and the more recent technology (D’Angelo, Majocchi, & Buck, 2016).

Advancements in Information and Communication Technology (ICT), particularly the internet have been a major driver of information flow and the expansion of the market potential of smaller firms. Furthermore, governments are beefing up their efforts to minimize barriers to international business operations, at the global and in particular at the regional level (i.e. COMESA, EAC, ECOWAS). One of the main policy challenges is procuring the possible benefits of the global economy for all business structures, including businesses in the SME sector (Deresky, 2017).

Numerous firms from developed nations such as USA, New Zealand, Japan, and Australia among others have a tendency of expanding the arising markets in developing nations. In their study Cavusgil, Ghauri, and Akcal (2012), noted that western managers opine that the developing markets have relatively new and boast of largely untapped markets, although the harsh reality is that the growing markets are also turning to be competitors and sourcing locations for western countries.

Nonetheless, for western marketing managers trying to sustain development, reduce costs, and introduce fresh products and industries, growing markets might be the solution (Cavusgil, Ghauri, & Akcal, 2012). Conversely, Hollensen (2011) implied that each young firm is more likely to internationalize, although in the initial instance it could be via institutions and people in the external environment of the company. The institutions and people, in other words are termed as marketing intermediaries, who mediate amongst firm and the market in addition to the end users of goods and services. The entire process of communication among the organization and the market is made efficient through intermediation procedures. Even though there are several intermediaries with regards to their various fields, although our concern are the marketing intermediaries such firms that aid firms in encouraging, selling and distributing their goods and services to the final consumers.
Importantly, firms that aspire to meet the challenges of present day quickly changing markets and growing universal competition need management decisions to be based on well-comprehended approaches.

Evident distinct approaches and plans are essential if the aim is to attain its goals while enhancing the utilization of its limited resources. According to Welford (2016), a critical strategic direction that a company could assume is to be additionally market oriented.

Without a doubt, among the key concerns for strategic management as a field of inquiry is the occurrence of strategic adaptation of companies; that is the manner through which companies attain a proper ‘fit’ with the surrounding through transformations in strategy. Rugut (2012) implied that change is inevitable and yesterday’s determinants of success could be today’s and tomorrow’s elements of failure. As a result, institutions ought to respond suitably to the transformations in their surrounding so as to survive and to attain their strategic goals.

At the organizational level, more interest in global markets could be explained through transforming competitive structures and shifts in demand. In their study, Aziz and Samad (2016) showed that the significance of SMEs for the nation’s economic growth, a significance that is expected to grow even more in the coming days. Specialized products from diverse regions associated with diverse food cultures majorly characterize food products from SMEs. The growing internalization promotes food companies to explore foreign markets and look for new clients. Diverse governmental agencies attempt to uphold the growing development and make the food sector a critical export industry.

For many businesses obtaining access to global markets and internalization is a strategic tool for their competitiveness and their further development. Obtaining access to global markets enables high-growth firms to realize their potential, and is often considered a necessary strategic change for SMEs who have invested highly in intellectual property (Adeola, Boso, & Adeniji, 2018). These kinds of firms have high fixed and sunk costs which need to be recovered from gaining as large a market as possible, as fast as possible.

Gaining access to international markets can also provide a range of business opportunities including novel niche markets; upgrading of technological capabilities; possibilities to exploit economies of scope, scale, technological advantage, and volume; ways of reducing and sharing costs, ways of spreading risks, as well as affording improved access to finance. Recent evidence indicates that there is a link between high-growth firms and exports, and it has been found that exporting is not the end of a robust process of growth but rather it is viewed as a starting point and serves to accompany the process of growth (Love & Roper, 2015).
In the high-technology and food processing industries SMEs are finding it increasingly difficult to act in the marketplace without taking into account the opportunities and risks presented by international and foreign completion. There are three key drivers of international entrepreneurship. The first one is the growth of low-cost technology resulting to better connections between locations and people, improved information processing and communication thereby creating a greater awareness of international opportunities. Second is the continuous disassembling of trade barriers and financial deregulation (Carroll, 2017). Free trade agreements including bilateral trade agreements such as Common Market for Eastern and Southern Africa (COMESA) and multilateral trade agreements such as World Trade Agreement (WTA) have provided a level playing ground for firms which are led by innovation. The third and final force is the widespread economic rearrangement and liberalization that followed the socialism in Central Europe and Russia and the expansion if markets in Asia, in particular China. The new markets serve as magnets for investment, opening further growth and investment opportunities. As a result of lower trade barriers, dynamic technological developments and increased competition an increasing number of SME are starting their international trading activities within their first year, and a huge share of their total sales comes from global markets (Burns, 2016).

The Eastern Africa industry is based in the fastest growing Sub-Saharan Africa markets, like Tanzania, Uganda, and Kenya which provides a good basis for further growth, particularly since the impact of imports from non-African countries has conventionally been limited. The Eastern Africa is earmarked to experience fast developments, and some countries such as Kenya and Tanzania have the potential to attain the status of a regional trade hub in the coming years (Mann, Graham, & Friederici , 2015). In Kenya, many companies in the different sectors of the economy have been successful in international entrepreneurship. According to Toulova, Votoupalova, and Kubickova (2015) businesses that operate in the food trading industry mainly rely on international markets to succeed. Kenya still retains a top spot as an importer of goods according to the East Africa Community report (2009), and the volume of imports is higher than the volume of exports at a growth of 4.7% and 12.5% respectively.

During the past few years, Kenya has been relying on low value primary exports and imports non-food industrial supplies including lubricants and fuel, as well as other high value capital equipment which bring about a large balance of payment. SMEs must be encouraged to venture into global markets in order to assist in tackling the problem of trade imbalance, especially in the food trading sector. The Export Promotion Council (EPC) asserts that the government has put up measures to encourage food trading including a
manufacture under bond program which provides incentives such as 100% percent investment allowance on equipment, buildings, plant, machinery, as well as exemption from duty and VAT when importing raw materials and other inputs (Namusonge, 2014). In addition to servicing both export and local markets, SMEs also play a crucial role in the Kenyan economy. They generate employment opportunities at low levels of investment per job, use local resources mostly, promote local innovation and creativity, absorb excess labor in the economy, and offer training for skills and competencies at a low cost to the society. According to the Economic Recovery Strategy (ERS) (2003), it was projected that most employment opportunities would be created in this sector. Additionally, the Kenyan government is undertaking a Micro, Small, and Medium Enterprises (MSMEs) Competitiveness Project to enhance the performance of the SMEs sector.

The project consists of three mutually reinforcing elements: bettering the business environment, access to finance, and consolidating enterprise skills and market linkages (KIP-PRA, 2009). One of the many forums promoting international entrepreneurship is the global entrepreneurship summit. The summit brings together educators, entrepreneurs, investors, leaders, business moguls, and policy makers from around the world. The main aim of the forum is to highlight the significance of entrepreneurship for global economic development. Selecting Kenya as the hosts for the 6th global entrepreneurship summit in 2015 points to the fact that Africa, and in particular Kenya has grown into a centre for entrepreneurship and innovation. Therefore, it is important to evaluate the internationalization of SMEs, the motivating factors supporting SME internationalization, the strategies for market entry, barriers to internationalization and the benefits of internationalization.

1.1 History of Daray Food Trading Company

Daray Food Trading Company is a wholesale distributor of high quality of fresh food products. The company has been operating since 2014 and is located at Mombasa, Kenya. Daray food products' limited customers include local and foreign wholesale distributors. It operates in East Africa and deals in importation and exportation. It mainly imports vegetables and meat from India and exports fruits from Kenya to North Asia. The company boasts of a spacious pack house with modern refrigeration facilities. Daray Food Trading Company is a proud supporter of local farming and locally produced foods. It owns a number of farms which focus on growing fruits and vegetables such as Avocado, mango, banana and green vegetables e.g. spinach. The company considers food safety and security as a very important facet of their business which is why the company has adopted the Global GAP (Good Agricultural Practices) Program and is now Global GAP certified.
The program requires annual recertification and training of employees and is part of the organization’s effort to deliver safe and healthy products to their consumers. Daray is continuously striving to increase the efficiency of the company through the adoption of new technologies, and constant improvements in their processes to meet the increasing needs of their customers. The main goals of the company are to expand to new markets in Europe; get cheaper prices for products and of higher quality; and import chicken and eggs.

The Kenyan economy is dominated by the Agricultural sector which accounts for 70% of the workforce and about 25% of the annual GDP (Heshmati & Rashidghalam, 2018). The country’s high rainfall areas make up about 10% of the arable land producing a staggering 705 of the national commercial agricultural output. Farmers in the arid areas produce about 10% of the output while the semi-arid areas account for the remaining 20% of the total output (Ochieng, Kirimi, & Mathenge, 2016). Nonetheless, productivity still remains low in most of the areas mainly due to poor incentives, and underdeveloped supporting institutions and infrastructure. Since 2013 Kenya has been carrying out reforms in the agricultural sector and these reforms are expected to stimulate growth (Sahoo, Shiferaw, & Gbegbelegbe, 2016). In addition, a new regulatory framework that arose from the harmonization and consolidation of sectoral laws is currently being implemented. Daray is ready to take its place in the world stage, as the food trading industry is evolving, from a national and regional basis to a more global platform. The continuous growth in this industry is set to carry on and a demand growth for food products is expected over the next 20 years. This can lead to significant international revenue streams in an evolving industry, from a regional and national market to a global market. The company would like to focus its investments to new markets in Europe, improve the quality of their products and increase their product portfolio.

1.2 Problem and objective of the study

The Kenyan government emphasizes the significance of an enhanced food export from SMEs for development of the Kenyan economy. Finding export channels, formulating an understanding of fresh markets and growing financial resources are concerns for most SMEs in the country especially those in the food sector. Opportunities as well as challenges that SMEs are experiencing in export and import ventures are assessed in several studies. The studies find several elements to take into deliberation, both internal and external. Much of the information present today regarding food companies and the export and import process is either unconfirmed evidence or is related
to macro-economic models, rather than behaviors applicable to personal companies. Strategic theories applicable to superior food enterprises subsist, and empirical evidence concerning this field could readily be found through little is known regarding SMEs (Majocchi, D'Angelo, Zucchella, & Buck, 2013; Albrechts, Balducci, & Hillier, 2016). Notably, there exist challenges with regards to motivating an import or export venture in the food dealing SMEs. Organizations have introduced incentives to enable the process, to increase knowledge of the way food dealers contribute and promote dealers to involve in international networks. The experience from managers in food dealing SMEs is that such work is complex, expensive and time consuming. Additionally, firms that are in a weak position in the domestic market and limited export and import experiences have low incentives to get involved in exporting projects. This might be a concern when motivating food dealing SMEs to begin importing or exporting and getting into foreign markets.

A gap of knowledge and information is present as regards the import and export process of food dealing SMEs in Kenya. The procedure of domestic SMEs in the food dealing industry exporting and importing their products abroad ought to be supplied in additional detail. There exists research that has a focus on the evidence from the entire SME industry, although few look at firms’ behavior in an export and import venture. Through studying import and export marketing approaches, the role of entrepreneurship and the engagement of intermediate institutions in such businesses the export and import process could be better understood.

As a result it is essential to look at the import and export process on a corporate level, additionally; it is of interest to look to what level these factors lead to the import and export of food by SMEs. Through studying Daray Food Trading Company, it is easier to understand the way food dealing SMEs succeed with the import and export process.

This study has the following objectives:-

- To conduct a research for the market opportunities for Daray Food Trading Company.
- To understand the motivating factors leading to internationalization of food processing SMEs.
- To find out the market entry options for export and import food processing SMEs in European agro-food industry

Since the research is carried out on Daray Food Trading Company, the project will look at the business perspective for this enterprise, no general conclusions for SMEs in the food processing enterprises could as a result be drawn. In addition, this study focuses on international markets in the European Union therefore it would be difficult to assess the market opportunities for Daray in other regions around the world.
2 Internationalization of small and medium enterprises

2.1 The concept of internationalization

Internationalization has been of extraordinary enthusiasm to almost every organization. There is no single and generally accepted meaning of internationalization yet from a economic aspects perspective, it is characterized as the procedure where business gets progressively engaged with the global markets. In the contemporary world, organizations start their activities locally however should draw up a long haul plan on how the business will go universal. (Azuayi, 2016)

Internationalization phenomenon has altogether changed the scene for most business coming about to an exceptionally powerful market circumstance with extreme competition for the organizations. The explanation for going for universal market differs starting with one organization then onto the next. In any case, most firms seek after internationalization since local market has turned out to be lacking a result of the economies of scale and numerous open doors that are accessible in the foreign market. (Azuayi, 2016)

2.2 Motives for Internationalization

There exist a number of reasons as to why companies pursue internationalization strategies. Some of the motives are reactive in nature while others are proactive. A good example of reactive motive is the need to serve a key client that has relocated overseas whereas an example of a proactive motive is to acquire new knowledge or tap overseas market opportunities. Companies have a wide range of reasons for going international such as on the reactive side of reasoning, there is globalization of trade barriers and competition. On the other hand, companies of the proactive side of reasoning venture into global markets because of economies of scale, cost savings, opportunities for growth, and access to resources. There are a number of driving factors that have led to the spread of globalization across industries. Even though the speed and impact varies according to the type of industry, these have been the primary stimulants for change from local to regional or global industry structure (Kraus, Mitter, Eggers, & Stieg, 2017). The factors in venturing into global markets are the same as it for most business decisions; determination and commitment to success. Notably, the most definite reasons for venturing into global markets will be to expand the operations of a country for profits and retorting to powerful competition and saturation in a country’s market. Nevertheless, in most business operations, one or two factors hardly account for a specific action. Normally, a blend of factors leads to a firm taking steps in a particular direction. These are relevant factors especially for SMEs which seek to venture into international markets.
**Proactive reasons**
These are motives which represent stimuli to attempt a change in strategy based on the interest of the firm in exploiting market capabilities or unique competencies. The strongest motivator for SMEs which choose to internationalize is profitability. Anil, Shoham, and Pfajfar (2016) identify proactive motives as unique products, profit advantage, market information, technological advantage, tax benefit, managerial urge, and economies of scale. Food trading companies internationalize as they would like to maximize their customer base and profit margins. A vast majority of the food trading companies have unique products that may not be available in the foreign country offering them a competitive edge.

**Reactive reasons**
These are motives that indicate that a firm reacts from threat or pressure in its local market or in foreign markets and passively adjust to them by altering its operations over time. Anil, Shoham, and Pfajfar (2016) identify reactive motives as overproduction, surplus capacity, competitive pressures, declining home market sales, proximity to customers and ports and saturate local markets. Competitive pressure comes to play when a company fears losing its local market share to competing firms or losing the overseas market completely to domestic competitors who choose to concentrate in those markets. In the event of overproduction during down turns in the local business cycle, foreign markets offer a perfect outlet for surplus or bloated inventories. The relevance of these motives gradually reduce as relationships are cut once the local market regains its intensity. Declining home market sales will also have a similar motivation effect as overproduction. It takes place when a company prolongs a product’s life by expanding into overseas markets. Saturated local markets and surplus capacity will have similar impacts as declining domestic sales and overproduction. A key reactive motive for food trading companies is proximity to the customers as product visibility results to an increase in the products sales abroad.

### 2.3 SMEs and its roles

SMEs is a term that is commonly used to designate small to medium enterprises. These are companies whose turnover or headcount falls below certain limits. The World Bank defines an SME as a company that has less than 300 employees and annual turnover of less than 15 million US dollars. Throughout the world, SMEs play a crucial role in their economies, often serving as the primary drivers of innovation, employment creation, and economic growth (Costa, Soares, & de Sousa, 2016). All SMEs share a number of common features regardless of local markets and industries.
A common characteristic in SMEs is that they have a specified and limited number of employees. Most SMEs are small in size and employ only a few workers. The small size of staff members are expected to complete all required tasks such as production, marketing, innovation, sales and accounting for the whole business. Many SMEs concentrate on a small number of products or services, which allows them to establish strong relations with business partners, which in turn provides stability for the SME. Another common feature among SMEs is that they rely on personal assets of owners and management to finance the company. Lastly, most SMEs adopt a simple business structure, which makes it easier for the company to be flexible and make needed changes rapidly without requiring the approval of stockholders or members of the board (Carpenter, 2017).

Economies from around the world recognize the value of the small business sector, irrespective of the stage of economic development. The contribution of SMEs towards employment creation, economic growth, and social progress is highly valued and small businesses are considered as an essential component in a successful strategy for attaining positive economic growth (Kraus, Mitter, Eggers, & Stieg, 2017). Costa, Soares, and de Sousa, (2016) argue that governments should concentrate on building a strong foundation of small firms and from this foundation, growth will arise. Small business are widely viewed as the custodians of growth and employment creation. New and small firms, rather than the bigger firms are increasingly emerging as the providers of new jobs (Storey, 2016). Nations that display a higher increase in entrepreneurship rates tend to display higher subsequent reduction in the rates of unemployment. Additionally, SMEs can contribute to fostering of economic and social cohesion in areas whose development is lagging behind, stimulate economic activity, and lead to the integration of disadvantaged and unemployed individuals into work (Burns, 2016).

The development of SMEs is crucial for the socio-economic development of the nation, because they increase competitiveness and support the mobilization of idle funds to productive aims. Small and Medium Sized Enterprises are key drivers of the market economy and their accomplishments offer wealth, jobs, and diversity of choice to customers. SMEs display accountable entrepreneurship in a more informal manner; however, they offer the focal point and fabric for many societies (Egels-Zandén, 2017).

2.4 Internationalization process of SMEs

There exist several models as regards the manner through which internalization works plus how the activities aid the business. There are numerous models that focus on the process of SMEs internationalizing while also presenting an enhanced perspective for the reader or researchers to understand what internalization details. Two major models used
in the project and important in understanding internalization are the Network Export Model and Uppsala Model.

### 2.4.1 Uppsala Model

Johanson and Vahlne (1977) developed the Uppsala Model with the aim of identifying the four stages of entry into international markets. Later the model was expanded by Cavusgil (1984) to have the fifth stage. The model provides an explanation of internalization as a series of stages assumed to grow a firm’s international engagement due to diverse types of learning. Every growth in engagement is an additionally progressive stage in the process of understanding the universal environment and competition. As regards the model, the overall and expert market knowledge and resource commitments of the firm impact commitment decisions and present business activities, termed as change features. The changed features then expand the market knowledge and stimulate additional resource commitment to global markets. The model indicates that firms grow the global engagement in small incremental steps in those foreign markets where they presently operate. Following that, the model indicates that the firms will begin to internationalize to countries that are based at a greater “psychological distance”; separated by factors such as education, language, and business practice among others. The Uppsala Model states that the commitment to foreign markets is founded on two elements; the number of resources committed plus the degree of commitment (Santangelo & Meyer, 2017). The former could be explained as the size of the investment required, while the latter implies to the challenge of understanding an alternative use for the resources and then changing them to that alternative use.

![Figure 1: Uppsala Model (Johanson & Vahlne, 1977)](image)

The internalization process details the market experience along with the market knowledge element (Bartlett & Beamish, 2018). Johanson and Vahlne developed a dynamic model through making an assumption that market knowledge and experience both
impact commitment decisions and the manner current internalization activities are carried out. Current commitment decisions along with activities as a result transform the level of market knowledge and market experience. In turn, the feedback loop formulates a learning cycle.

2.4.2 Network Approach

Over the preceding two decades a great deal of emphasis has been placed on the internalization and majorly doing it in networks. Hollensen (2011) indicated that the network model is when firms have connections with each other as compared to working in an independent manner. The network amongst the firms is only with regards to their will to be involved. Notably, the networks are additionally freer, and firms might create new or break the ancient networks as they like; although the old connections are the ones that have a larger number of transaction in the network. The network might present huge advantages in fields where large and fast changes in the market exist meaning that businesses arise in networks that present them with the greatest advantage.

A business network is ought to not be viewed as an easy thing by an outsider or even an individual or company that wants to join it since the diverse actors in a network might be tied together through an extensive number of diverse reasons such as legal, technical, economical, or even social reasons. In his study Hollensen (2011), he indicated that the network model assumes that firms are related through the resources. The actors that are inside the network turn to be additionally independent on the others as a result of the resources. Using the resource demand from other players there may be external players requiring getting into the network of the one player to be able to present the other actors the resources they require. This means that the connection inside the networks develops and possibly transforms the connection to either better or worse.

The network might only be in a single nation border, denoting to a national net, although it could extend to other nations (Hollensen, 2011). In their study Ruzzier, Hisrich & Antoncic (2014), indicated that as a result of the connections in a network, companies could become international in the case other companies in the network decide to do so. Firms could additionally require that the suppliers in the network follow the firm in the foreign country, in case they need to keep some business in the domestic market too. This implies that the actors in a network are majorly tied in the domestic market and then additionally grow into other markets, through linking into new networks or growth the present ones.

Consequently, internationalization is defined in terms of connections developed through the commercial operations carried out with other countries via the three stages described
by Johanson and Mattson (2015) and which comprised: prolongation, penetration plus integration. Essentially, prolongation is the initial step to incorporate the network and is complemented by fresh investments for the company. Penetration described the growth of the positions of the company in the network and the growth of its resources of commitment. Integration comprises an advanced stage where the company is connected to certain national networks that ought to work together.

![Figure 2: Internationalization and the network model (Johanson & Mattsson, 2015)](image)

From figure 2 above, the early starter stage sees the company having no significant connection with international actors and possesses very little knowledge regarding the international market. The stage could see the company getting involved gradually in the foreign market through an agent. The second stage lonely international presents companies that have experience with other actors in the international market. A firm at this stage possesses more knowledge on matters international business as compared to the early starter situation (Johanson & Mattsson, 2015). The late starters are still very focused on the domestic market equated to other firms in the network that boast of long-term connections with global markets. Carrying out a comparison of the late starters with early starters, shows the late starter finds it hard to discover good connections since the competitors have already acquired the best distributors in their hands. The last element in the figure implies that the firm has the ability to create a bridge from a network to another where for instance; production in one market could make it possible for sales in another market. In
this stage, international knowledge us quite high and as a result the requirement to utilize
diverse markets is stronger (Forsgren, 2016).

2.5 Entry modes to Foreign Market

When a firm chooses to move to the international level, it also has to settle on a suitable
mode of entry (Grünig & Morschett, 2012). The current evidence on international entrepre-
neurship is bent towards the field of export, partly because of the relatively lower risk and
commitment involved. Nonetheless, there are various modes of market entry that can be
used for internalization including exporting, management contracts, licensing agreements,
franchising, international subcontracts, turnkey contracts, industrial cooperation, joint ven-
tures, mergers, wholly owned subsidiaries, and strategic alliances. These different models
differ based on the cost, commitment, control, efficiency, and involved risk (De Villa,
Rajwani, & Lawton, 2015).

2.5.1 Exports

Exporting is defined as when a company processes products in their home country and
sends them to an affiliate in the target market abroad where final assembly and sales are
completed (Grüning & Morschett, 2012). There are two main forms of exporting i.e. direct
importing and indirect importing. Direct importing is where the company sells directly to
any consumer in a target country (Gillespie & Riddle, 2015). The buyer can either be in
the final phase of consumption or an intermediary who is located in the foreign market.
Indirect exporting occurs when an exporter uses autonomous middlemen to reach and sell
to the final consumer (Gillespie & Riddle, 2015).
The process of indirect exporting calls for minimal commitment since the exporter has the
intermediary to undertake all cross border operations. Intermediaries consist of local dis-
tributors who are located in foreign countries or in the home country. Nevertheless, indi-
rect exporting can be a viable option for SMEs if the firm only intermittently sends prod-
ucts in foreign markets and if the international sales are spread over a huge number of
diverse markets where it might be hard to develop specific knowledge. A vast majority of
Kenyan exports fall in the direct exporting category which means that to secure the bene-
fits of internationalization the country needs to expand into more value-added exports
to 2018, the country's exports have averaged at KES29387 million with an all-time high
record being set in 2015 at KES59405 million (Central Bank of Kenya, 2018)

Figure 4: Kenya’s Exports 2017-2018
(Source: Trading Economics, 2018)

2.5.2 Licensing agreements

Licensing is one of the strategies which a company can use production in a foreign country without major investments with regards to capital. According to Hollensen (2011) licensing allows for the production by a licensee without any obligation for the licensor to develop a novel operation overseas. With licensing agreements the licensor is granted the rights to intellectual property by the licensee for a specific period. The licensee pays royalty fees in return. The type of licensing agreements varies based on the position of the operation in the value chain, for example, marketing, distribution and production. Licensing is commonly utilized in industries where branding is imperative particularly foods, pharmaceuticals and fast moving consumer goods. In licenses used for processes, the licensor is granted the right to utilize a specific production technique, usually based on a patent. If a production license is granted, the licensor has a right to manufacture a product or specified products in accordance with particular processes, formulas, and procedures. In addition, in the case of a distribution license the licensor grants the licensee rights to market the products in a specified territory. If this does not happen, the licensor in the home county may take full control of the sales operations of the company in the foreign market. In such a scenario, the licensee is similar to a contract manufacturer (Hardgrove & Starr, 2017).
2.5.3 Wholly owned subsidiaries

As opposed to having production being conducted by a licensee, a company can set up their own factory in the target country. Grunig & Murschett (2012) explains that this option has all local production benefits that have been listed for licensing. Additionally, it has the advantage of total control over activities, such as quality and production output. During the selection of a market entry with a wholly owned subsidiary, there is an extra option of gaining the acquisition of a local company that already has a product range that can be sold in the target country (Hardgrove & Starr, 2017). This form of arrangements also attracts subsidies from the government and local customers appreciate it by seeing this as a commitment to the market. Companies in the food trading market in Kenya are more inclined to this second to exports because the mother company has substantial control over the subsidiary. Nonetheless, SMEs usually find it difficult to have a wholly owned subsidiary in a foreign country. This is attributed to a number of factors including the high risk involved, high entry cost and sophisticated registration procedures (Wach, 2012).

2.5.4 Joint Venture

According to Johanson and Mattsson (2015) a joint venture can be defined as a partnership between two or more companies for a specific business goal of which they share control and ownership. Every partner in the partnership is required to contribute a specialized skill. Operating with a joint venture has a number of advantages in relation to market access. The local partner has the ability to promote the adaptation of a company’s products to local tastes in the target market. Normally, the local partner company is more conversant with the conditions of the local market. Moreover, the local partner not only speeds up the process of setting up operations in the target country but also shares the risks involved (Grüning & Morschett, 2012). In some nations the local joint venture partner is required to ensure access to market in upcoming economies. Many times SMEs prefer joint venture because of their nature and to obtain a better access to the market as well as minimizing the costs and risks involved in entering a new market.

2.5.5 Strategic Alliances

According to Brouthers, Nakos, and Dimitratos (2015) a strategic alliance is an agreement between two or more competitive businesses with an aim of mutually serving a global market. In another definition, Grunig & Murschett, (2012) describe strategic alliances as agreements between two or more parties for the purpose of pursuing a set of agreed upon goals while retaining their independent organization status. This kind of partnership is mostly formed by enterprises that work in the same line of business. A strategic alliance
makes it easier for rapid outreach of the SMEs in the target market, but it is risky and relatively expensive. It can take different forms and it is employed for a number of reasons including facilitating legislations by the government in host country, need to bring on board partners who are familiar with the local business climate with regards to culture, economy, and political structures, and a desire by SMEs to obtain a local entity to concentrate on local target market activities without being wholly involved in the new market. Strategic alliances are particularly common when searching for a local firm to conduct tasks that would otherwise be expensive for the firm to carry out independently. The options mentioned above display diverse strategic choices for the entrepreneurial growth of a company. The choice of strategy is mainly dependent on various factors such as availability of finance, cost of operations, regulations in the target market countries, entrepreneurial culture of different regions, and the risk involved (Brouthers, Nakos, & Dimitratos, 2015).

2.6 Summarizing discussion

In general, food trading companies are found to be attracted to foreign markets to exploit new markets and to take advantage of economic opportunities in these countries (Bates, 2014). Taking this into consideration, what are the deliberations made in relation to security, staffing, market size in foreign country, and economic performance of a country. According to Eriksson, Johanson, Majkgård, & Sharma (2015), the development of novel markets is one of the options that are open to firms seeking to grow. This research project seeks to find out the considerations to be made by the management of Daray Food Trading Company before internationalizing. This will include considerations such as the firm’s productivity, different food trading regulations in every country, security considerations, staffing considerations and a country’s economic performance.

2.6.1 SMEs and Internationalization

The internationalization of SMEs is a significant phenomenon, which warrants further research even though SMEs are not well presented in the international economy as large firms (Love & Roper, 2015). Starting in the 1990s, an increasing number of researchers have paid attention to the internationalization of SMEs. This is justifiable given the importance of the role played by SMEs in the economies of most nations. According to the World Trade Organization (2017) the SME sector general contributes to 34% of exports on average in developed countries. This relatively small percentage is attributed to the fact that SMEs harbor inherent human and financial resource constraints, lack of strategic planning and thinking as well as a limited scale of operations. However, a significant portion of the exports of large firms comes from networking and subcontracting with small
companies, so the overall exports and imports of this sector are more significant than the figures display.

It is imperative for companies and economies to record a shift in these figures. As pointed out by Toulouva, Votoupalova, and Kubickova (2015), the stock of specific knowledge in the globalizing company - large or small – is vital for its operations in foreign markets and an expansion in knowledge is brought about by organizational learning. The ability to monitor, gather, store, interpret and evaluate information at the lowest possible cost can be the primary intangible asset providing a form with a specific advantage in the market. In turn an organization consists of the individuals working for it, and an evaluation of the specific knowledge and competencies that are essential for the internationalization of SMEs would be beneficial information to communicate to those who are planning or just commencing their process of internalization. Jacobsen and Van Vugt (2017) explain that the internalization of information is a fundamental antecedent to the internationalization of SMEs. They further define information internalization as the how of both explicit and tacit information into the organization and its translation to knowledge, which is later applied to a specific purpose. Internationalization can only take place when the firm has acquired relevant knowledge through a process of information translation and internalization. According to Jacobsen and Van Vugt (2017) this process is an essential condition for the internationalization of SMEs. Further studies reveal that the key individual in a smaller company, which might be the owner or manager, plays a vital role in the international orientation of the firm. Personal relationships and individual interests may play a part in the selection of target nations and the mode of internationalization (Adeola, Boso, & Adeniji, 2018).

The use of language is usually considered as one of the most common forms of communication hardships (Samovar, Porter, McDaniel, & Roy, 2014). Thrift and Amin (2017), assert that language imposes its own structure on the hows of communication and individual networks. Subordinate stall with limited language skills tend to build supportive relationships with language interpreters, whereas those with advanced language capabilities have a large capacity to build broad contact networks. Many times language is utilized as an informal source of expert power (Shin, 2017).

According to Sui, Morgan, and Baum (2015), SMEs do not view language as an important foreign trade impediment as larger firms do. Most SMEs do not recruit language experts or promote language training of staff (Prashantham, Dhanaraj, & Kumar, 2015) even though some studies suggest that global trade success is linked to the employment of foreign nationals and culture specialists (Roy, Sekhar, & Vyas, 2016). Roy, Sekhar, and Vyas (2016) go further to claim that the management of international firms and competitive advantage are increasingly build around marketing expertise supported by cultural
awareness and language skills. Nonetheless, the role played by foreign language competence in global business has receive little attention from researchers, in particular research related to SMEs. Since the 1980s, the significance of role of support services for the process of internationalization of small firms have been broadly researched (Eriksson, Johanson, Majkgård, & Sharma, 2015). Most researchers have concentrated on the needs of small firms, their performance on the global market, and the development of expertise for selling products, a stock of information and knowledge for internationalization, and the promotion of internationalization by the government. All these aspects can be merged and studied under the theme of how SME can succeed as they attempt to internationalize.

Issues surrounding governmental or any other aid for internationalization stand out as crucial elements of internationalization of SMEs. According to Toulova, Votoupalova, and Kubickova (2015) the cooperation of SMEs in import and export circles seems to have led to necessary shared expectation of sustainable business management in the relational climate of mutual comprehension. Furthermore, in their study Adeola, Boso, & Adeniji (2018) propose that import and export promotion should be done through the promotion of networks. There is substantial literature evidence suggesting that conventional import and export promotion initiative are unsuitable and inadequate for the needs of the SME sector. They explain that the development of practical skills is vital since it supports the internationalization of small firms. In addition, they argued in favor of networks in which learning global experiences can be shared among those who take part in it. However, Marwa (2018) was critical about the blend of government aid that is channeled to the promotion of import and export. He bases his view on the fact that most the SMEs in the Kenyan market started on the wrong foot when they began international operations. Certainly, there is a reason to look into the Kenya SMEs use of and experiences with the different types of aid for their internationalization, such as networking for example in the form of foreign trade circles. Despite of the ease in research in this field, it is evident that the internationalization of smaller opportunities especially in the developing countries has been ignored. This project will strive to fill this gap in knowledge.

2.6.2 Business Strategy and Internationalisation

Very little research has been carried out to relate business strategies being pursued by SMEs to their process of internationalization. Buckley and Ghauri (2015) highlight the limited attention that has been given to the relationship between “internationalization theory” and strategic issues at both practical and conceptual levels. The deficiency of linkage is conceivably most evident with regards to small firm strategies and internationalization.
This is a surprising scenario in some respects, given that evidence in the literature identifies new market development as a feasible strategy for the fast growth of small firms and as an alternative to developing novel products or services offerings for the local market. Nonetheless, in some other respects the limited attention is less remarkable and may be partly explained by various factors. This includes the fact that early research characterizes the export and import behavior of small firm as necessarily reactive and unplanned, with businesses responding to spontaneous enquiries and orders rather than trailing proactive strategies (Anil, Shoham, & Pfajfar, 2016). In addition, most of the earlier contributions tend to treat international involvement as of secondary significance to local market operations and something that firms only consider after fully establishing a secure foothold in the domestic market. Therefore, international and local markets are many times regarded as different strategic isolations, instead of complementary strategies for the growth of a firm.

2.6.3 Market opportunities and internationalization

Target markets may display great differences from the market of the home nation. These diversities essentially impact the determination of the strategy of a firm’s target market. According to Prashantham, Dhanaraj, & Kumar (2015) companies initiate their process of internationalization by venturing into those markets they can understand with minimal effort. This way they will be able to see opportunities and the perceived uncertainties in the market and therefore enter new market with progressively superior psychic distance. Geographical and physical distance has been included in explanations of the path of global trade (Leimgruber, 2018). Ambos and Håkanson (2014) expand on the idea of psychic distance with other perspectives including political, cultural, and environment and provide the definition “Psychic distance is a sum of factors that prevent the flow of information between firm and the market.”

In relation to the determination of a target market, the distance involved is assumed to have an effect on the degree of knowledge. Generally, the idea supports the concept that the greater the distance between the target and home country, the greater the diversity and smaller the company’s level of knowledge related to the target nation. The psychic distance technique in choosing the target country can many times lead to targeting a market that is limited to the company’s close neighbors since geographical proximity has a higher likelihood of implying more knowledge about the overseas market and more ease in acquiring information (Ambos and Håkanson, 2014). Making a choice for a target nation using the psychic distance procedure is one of the many non-systematic approaches believed to be more likely utilized by small firms and firms which are still in the initial phases.
of their internationalization process than large firms with experience in international trade (Eriksson, Johanson, Majkgård, & Sharma, 2015).
3 Analysis of the target market Eu and Agro-Industry

In Europe most agro-food products are traded within the European Union but exports to third world countries are becoming increasingly significant (European Commission, 2017). A vast majority of agro-foods exports of EU constitutes of exports to the internal market which consists of EU member states. In 2005, 77% of EU member state agro-food exports were delivered to their fellow member states. In 2016, this share had decreased to 72.7%. Nonetheless, exports among EU member states increased by 72% during this period to get to EUR350 billion in 2016 (European Commission).

![Figure 5: Trends in intra and extra-EU exports of agro-food products over 2005-2016](Source: European Commission, 2017)

During the same period exports to third countries have witnessed a steady increase from EUR 57.6 billion to EUR129.1 billion which translates to 124% increase. This indicates that an increasing share of agro-food products from European Union member states is being exported to third countries. In 2007, agro-food exports to third countries accounted for 6.5% of the total production value of EU and this figure reached 10.1% in 2015
The EU trade policy and CAP reforms facilitated the transformation of EU from net importer to the number one exporter of agro-foods products. Agro-food imports and exports from third countries have doubled in value since 2006 (European Commission, 2017). In 2016, the yearly value of agro-food exports of EU reached a new high of EUR130.7 billion, which translates to a 1.3% increase from 2015. In 2011, this value stood at EUR29.4 million therefore in a span of five years it has risen by 29%. On the other hand, agro-food imports of EU reached a high of EUR112 billion in 2016. This is an indicator of a positive trade balance in the EU from 2010. Currently, the agro-food sector contributes 7.6% of all imported goods in the EU and 6.6% of the total of imported goods are agro-food.
In addition to being a net exporter of agro-food products, the EU took the top spot as the world’s largest exporter in 2012, a position previously held by the United States. Furthermore, a total of six member states of the EU occupy the world’s top ten agro-food exporters.
Although the agricultural exports of EU have experienced a slow growth, they have shown a compound yearly growth rate of 3.6% in comparison to a 2.7% growth rate for the United States. The growth has been primarily brought about by structural change, EU agricultural policies, and advancements in technology in the Agro-food sector. The EU commissioned a recent study on the influence of implemented trade agreements and the results showed that bilateral agreements of the EU contribute to an increase in imports and exports.
This is a development that highlights the increased competitiveness of agro-food products from EU member states. Evidently, the continuous reforms in common agricultural policy (CAP) has assisted in bridging the gap between EU and world prices.

Figure 10: Ratio between EU and world prices
(Source: European Commission, 2017)

Notably, the gradual phasing out of CAP export subsidies has been identified as an imperative component of the CAP expenditure. Following the implementation of CAP (common agricultural policy) reform, they could only be utilized in limited circumstances. Contrary to most of the competitors of the EU, it has not used them since 2013 even though they remain an apparatus in the CMO (Common organization of the markets) regulation.

Figure 11: Trend in CAP expenditure by type of subsidy – phasing out of export subsidies
(Source: European Commission, 2017)
The world top importer of agro-food products is the European Union. Remarkably, it is the first trade partner of Least Developed Countries (LDCs) with regards to agro-food products. Single-handedly, the EU imports more agro-food products from LDCs than any of the world’s top 5 importers i.e. China, Russia, United States, Japan, and Canada.

Figure 12: Top agro-food imports from Least Developed Countries
(Source: European Commission, 2017)

3.1 Regulation of import from developing countries

Being the first trade partner of Least Developed Countries (LDCs) with regards to agro-food products, there are strict regulations when exporting fresh fruit and vegetables to Europe, companies have to comply with the requirements below. (cbi, 2018) These requirements can be categorized as:

- food safety;
- product quality;
- Social, environmental and business compliance.

3.2 EU’s trade treaties and disputes with East African community

The East African Community (Burundi, Kenya, Rwanda, Tanzania, and Uganda) wrapped up the negotiations for an Economic Partnership Agreement (EPA) with the EU. Kenya and Rwanda signed the EPA in September 2016, and Kenya has ratified it. For the EPA to enter into force, the three remaining EAC members need to sign and ratify the agreement. South Sudan became the sixth member of the EAC in September 2016. (europa, 2018) The EU-EAC EPA covers trade in goods and development cooperation. It also contains a chapter on fisheries, largely to strengthen cooperation on the viable use of resources. (europa, 2018)
Under the bilateral trade agreement, EAC members enjoy quota-free and tax-free privileges to the EU market. However, the United Nations Economic Commission for Africa (UNECA) articulates in a report that if this agreement is signed, local industries will struggle to endure competitive pressures from EU firms, while the region will be stuck in its position as a low value-added commodity exporter. (MUGISHA, 2017)

3.3 PESTEL analysis of the EU

3.3.1 Political

The politics of the European Union deals with the continuously evolving political landscape within the member countries. It is a subject that is more detailed than in any other continent due to a number of factors which includes the long history of member states increased political unity. Majority of the current trends in the politics of the EU emanate from the historical events that took place in the continent. Similarly, economy, geography, and culture have contributed to contemporary organization of Europe. The modern-day politics in Europe are dominated by the EU and most states have either joined, or indicated their intentions to join the EU.

The EU has numerous activities, with the most significant being a common market, entailing a customs union, a single currency, which has been adopted in most of the member states. In addition, the European Union has a number of initiatives to coordinate activities of member states including the adoption of a Common Fisheries Policy and a Common Agricultural Policy.

3.3.2 Economic

The continent of Europe currently holds the largest economy in the world and it is the richest region in terms of assets under management. The European Union is the single largest single economic area globally. A vast majority of the EU member states share the Euro as a common currency. Nonetheless, there is a huge disparity among many member states of the EU in terms of income. Luxembourg is the richest country in the EU in terms of GDP per capita with its $92,800 per capita according to 2017 and the poorest is Serbia with its GDP per capita of $5,200 (Eurostat, 2012). The EU agro-food industry is generally competitive on a global scale and produces healthy, safe and high quality food. Notably, this sector has experienced a decline in competitiveness in recent years compared to other global food producers, particularly in relation to labor productivity and added value.
Certain issues have been observed in the functioning of the EU food supply chain due to transparency, sub-optimal business-to-business relationships, low market integration across EU member states, and a lack of appeal for skilled employees. In addition, high import tariffs by the EU on processed foods force most African companies to export raw agricultural products, instead of adding value to them to boost profits.

### 3.3.3 Social

Since the renaissance era, Europe had played a major role in influencing the global culture, economics, and social movements. Some of the ongoing and past issues in the demographics of the EU include race relations, religious emigration, economic immigration, an aging population, and a declining rate of birth. The culture in the EU can be defined as a series of overlapping cultural perspectives, cultural blending existing across all the member states. In some instances, there are cultural movements and innovations that can be at odds with each other.

In terms of food culture, people are health food oriented. Hence, Daray food trade Co. can tap in this opportunity for instance the consumption of avocado. The European import value of avocados virtually tripled in the period between 2013 and 2017. This rising trend is compelled by consumer demand for ready-to-eat and health food. It builds opportunities for producers and exporters, especially for the Hass avocado variety, although competition is growing. The top opportunities are in large consumer markets such as France, Germany, Spain and the UK, which are often supplied through the Netherlands. (CBI, 2018)

### 3.3.4 Technology

The industrial revolution started in the Great Britain in the last years of the 18th century and soon it spread throughout European countries. New inventions and advancements in technology led to mass employment, rapid urban growth, and the emergence of a new working class.

Technological change in the EU is boosting inclusive growth in nations and regions that provide opportunities for productive firms and skilled individuals. The EU has funded the HighTech Europe project to enhance the links between the Agro-food industry and cutting edge technologies, thereby facilitating the essential process of technology transfer and knowledge exchange (Grilli & Murtinu, 2014).

This task was made necessary due to the high fragmentation in the European Agro-food industry. Almost 50 percent of the EU turnover is accounted for by SMEs, which might not have adequate resources to conduct their own research, or to keep updated with new developments in the dynamic technological environment. Through the provision of an easier means of plugging to the latest technological and scientific advances and their application
into business operations, the HighTech project is expected to play a crucial role in promoting the competitiveness of the European Agro-food industry (European Commission, 2017).

3.3.5 Environment

The EU has been steadfast in the protection of the environment through various initiatives. Europe is a global leader in eco-efficient technologies. According to Ketels and Protsiv, (2014), eco-industries in EU employs more than two million persons, accounting for about one third of the world market and are growing every year.

The European Strategic Energy Technology Plan (SET-Plan) was designed to develop low-carbon technologies and ensure that they are economically feasible. The main goal of the SET-Plan is to speed up the uptake of new technologies including wind energy and bioenergy by minimizing their costs and boosting efficiency. In addition, the EU has adopted the Environmental Technology Verification (ETV), a tool that can be used to assist innovative environmental technologies reach the market.

3.3.6 Legal

The EU takes great care in a bid to ensure that its food standards do not stifle innovation, impair quality or force traditional foods off the market. The General Food Law (Regulation (EC) No 178/2002) imposes general obligations for the provision of safe food. Furthermore, according to the Regulation (EC) No 852/2004 on the hygiene of food products, food enterprises are expected to adopt guidelines to prevent safe good. Under these legislations, businesses in the food chain are required to provide safe food, implement procedures to prevent unsafe foods, recall and withdraw unsafe foods, and collaborate with competent authorities (Amenta et al., 2015).

The EU trade policy treats African countries differently, by giving them better access which allows these countries to have more space to export to the EU than bigger economies, giving them a better chance to grow.

Free trade deals between the EU and African countries such as the East African Community (EAC) which are known as Economic Partnership Agreements (EPA) provides the EU with cheap access to a large portion of African markets.

The EU offers to eliminate some of the duties and tariffs on products. However, some experts have argued that these deals mainly benefit the EU due to the relative weakness of African companies which makes it difficult to compete with firms in Europe in a free trade environment (Palitza, 207). For instance, in 2014 Kenya refused to sign a deal fearing that subsidized Agro-food products from the EU would adversely affect its Agro-food sector. In
response the EU threatened to impose tariffs on the cut flower sector which is one of the biggest foreign exchange earners in Kenya. Kenyans obliged and went on to sign the agreement.

3.4 Kenya as a Trading Partner

Kenya has one of the most liberal and open investment policy in the Eastern African region therefore the country hosts hundreds of foreign and multinational firms. There are minimum restrictions on the outflow and inflow of finances for remittance of capital, profits, debt service, expenses for imported inputs or returns on rational property. Kenya has well-structured infrastructure and legal models are founded on attracting investment. This includes rail, road, sea links; high quality telecommunications and advanced ICT services, novel company legislations and long term business culture.

3.4.1 Analysis of Kenya’s agro-food import and export industry

Agriculture, entailing forestry, fishing, and livestock represent about 27 percent of the GDP of Kenya and for 60 percent of export earnings from trade in goods. This is a crucial sector in the county given that 80 percent of the population relies on agriculture for their livelihood. A huge proportion of this segment is based on small scale farming which produces both food crops and cash crops representing two thirds of the total agricultural output. Notably, Kenya has set up a series of economic reforms with an aim of encouraging the participation of the private sector in marketing, production, processing, and trading of agro-food products.

Most of the boards in charge of agricultural marketing have been reorganized, eliminating the monopoly rights in marketing and pricing of commodities. Consequently, most of the prices of agro-food products are now determined by market forces, with export and import parity prices being the main determinants of domestic prices. Gradually, tariffs have become an exclusive instrument for the regulation of trade.

The Government of Kenya (GOK) is encouraging export certification of almost all foods prior to their exportation for animal and human consumption. The recent trade deal between the East African Community and the EU is expected to increase agro-food trade between the two regions.

The EAP could enable Kenyan companies to sell more exports and the resulting increased tax income could be used to provide essential services such as water and educa-
tion. Kenya remains one of the biggest trading partners in the EAC, with meat and live animal exports accounting for 1.5 percent of all EU agro-food exports to Kenya in 2013 (Rinjeu & Lange-Chenier, 2014).

Notably, the market access for the main export products is most difficult for vegetables and fruits, for which EU is the main market. Unlike Egypt and Morocco, Kenya does not have a bilateral agreement with EU for the allocation of quotas. Consequently, exports are mainly off-season products in the EU market. Even though Kenya is part of the Lome Convention, it does not provide for preferential treatment by the EU market. Considering the revealed comparative advantage in the export and production of fruit and vegetables, it is essential for Kenya to evaluate the sophisticated trade regime for those products, in order to be in a position to negotiate better access terms in the new round.

3.4.2 **PESTEL Analysis of Kenya**

**Political**

Kenya became a republic on 12th December, 1963, to form an independent state from the British rule in East Africa. Kenya is governed under the constitution of 2010 as amended, which provided for decentralized form of government. The President is the head of state and is elected to serve for a five year term by an electoral college selected from the county assemblies and national parliament. The president is also the Commander-in-chief of the armed forces and he heads the national government. This political model occurs in the nation within the background of a federal republic. Executive power is only handed to the government and legislative branches and it is hugely vested in the parliament through a political consensus. Kenyan firms are allowed to move from one region to any other region of the country. They are also allowed to register to vote in that area and they get to enjoy the same benefits as the local residents of the area. The government also offers protection to residents who move from one county to another as they only need to inform the local court that they have shifted from one region to another.

**Economical**

The Kenyan economy is the 89th major economy globally with regards to purchasing power and the 69th largest in terms of absolute dollar. Agriculture is primarily the spine of the Kenyan economy which employs over 35% of the country’s total population. Tea, rice, flowers, cotton, vegetables, tobacco, and fruits are the country chief crops and cattle, poultry and fish are raised for business purposes. Kenya has an enormous reserve of consumables including limestone, dynamite, salt rock, silica sand, and oil. Exploration of minerals and mining through appropriate techniques, deliver a suitable economic advantage
and a substantial edge to the nation’s economy. This sector recorded a rise of 9.8% during the 2015-16 fiscal year besides 5.8% in the previous year. As compared to the preceding years the Kenyan economy has shown a stable figure which has also resulted to the growth of the country’s GDP. The figure below indicates the exports of Kenya to the EU.

![EU Agri-food Imports from Kenya by product category](image)

**Figure 13 EU Agri-food imports from Kenya**  
(Sources: - European commission 2018)

**Social**

The connection between the dynamics and structure of politics, economy, and society play an important role in defining the development and spatial dissemination of expansion and transformation of social lives. The impact of this undertone on social organization in Kenya changes continuously besides diverse categorizations including age, gender, culture, and ethnicity. Fundamentally, there is a remarkable change in the pace of adjustment between poor, rich, rural, and urban regions for genders. The primary problem in the Kenyan development policy and practice has been the absence of tangible concentration on the issues assessing the part of sociological drivers, since economic and political structures and methodologies have totally controlled decision-makers and organizations. There is a worrying need to incorporate sociological acumen into development research policy and further changes to the day-to-day life practices of residents.

This form of research-based indicators can act as a pre-condition for guiding public strategy in a manner that has the capability to offer solutions to the determined social hardships in the Kenyan society. additionally, there is an ominous need to evaluate the variations of establishments, standards of the general public, and variations in social groups.
analytically in the model of it pre-colonial and post-colonial antiquity and today’s encounters. Issues including ethnic stiffness, social transformation, religion-based sectarian vehemence and struggle for supremacy and peace in Kenya require further exploration in the background of a multiethnic, multilingual society which is struggling to deal with encounters of a dynamic arrangement of frugality and domination.

A large and growing domestic market consists of 50 million consumers with growing incomes and an increasing middle-class preferring refined daily consumption habits. Kenya has a sturdy human resource base which consists of English speaking workforce, cost-effective managers and workforce, and technical and non-technical workers.

One of the main merits for firms entering the country’s market would be that a vast majority of the population is under thirty years. This means that there is a huge pool of young individuals and market opportunities.

**Technological**

Information technology is currently being used by both developed and developing countries for the enhancement of performances. Similarly, in Kenya this new technology is being implemented aggressively in most organization. As a result of the decreasing costs in the IT industry, it has spread very swiftly into all the industries of Kenya. Internet service which was initiated in 1996 in Kenya is being bettered continuously as the years pass, alongside the upgrading of mobile phone infrastructure and varied services. Information technology is broadly being used in most private and federal organizations for day-to-day organizational tasks. The IT industry is currently largely responsible for monitoring of all the issues related to IT. The country now has over 12 million internet users and most of these users browse the internet using their cellphones.

**Environmental**

The Kenyan economy has recently witnessed a steady growth in the GDP in the past decade. On the other hand, there is a critical need to look at the continued convenience of fundamental and essential green environmental services and protection of natural resources. The natural assets of Kenya are increasingly under pressure because of the fast population growth, urbanization, as well as continuous practices which are unsustainable. As a result of the shortage in natural water resources Kenya seems to be one of the water-stressed nations.

Kenya is also at the front of environment complications especially due to demographic growth, lack of a proper education system, misuse of water, and disastrous carelessness. Deforestation, air pollution, hygiene, agricultural soil filth, and land range deprivation are
added key environment challenges in Kenya. In response to the global warming and climate change, the federal and county governments are sponsoring environmentally friendly policies with an aim of moving the nation towards the volume of significant institutions to cope with snowballing environmental degradation.

The continuing projects are under operations to plan and address modern techniques and they include the Kenya Agricultural Productivity and Sustainable Land Management Project (KAPSLMP), and Establishment of Clean Development Mechanism (CDM) Cell. Kenya’s forest cover is now said to be at 7% having increased by 5.3% since 2013. More than 100,000 ha of land that was previously occupied by forest have been changed for no forestry purposes. With the fast growing population in Kenya, forest covers are in increasing danger, demand for watershed and subsistence consumptions consisting daily usage such grazing and wood.

**Legal**

Since attaining its independence in 1963 Kenya has had major amendments to the constitution and the new constitution was promulgated in August 28 2010. The promulgation of the new constitution marked the culmination of one of the lengthiest legal voyages in Kenyan history.

The 2010 constitution was approved by over 67% of Kenyan voters in a referendum that paved way for a crucial moment in Kenya’s democracy. The constitution is the supreme law of Kenya and it defines the model of the Kenyan government. The Kenyan government is made up of The Executive, The Judiciary, The Legislature, and The Devolved Governments. The constitution provides for an independent judiciary which consists of the courts of law and tribunals. The highest court in Kenya under the constitution is the Supreme Court. The Court of Appeal is the second highest court in Kenya whereas the third highest court is the High Court.

### 3.4.3 SWOT Analysis of Daray Food Trading Company

A SWOT analysis indicated the strengths, weaknesses, opportunities and threats for a firm. This analysis is highly recommended to ensure that a business understands what it is actually capable of. The figure below shows the SWOT analysis for Daray.

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On the foundation of this SWOT analysis it is possible to predict the future of Daray, the firm holds strengths including market opportunities and an already large pool of companies with which Daray can partner with. The opportunities include tariff exemptions which can enable the company to compete well in the market. In addition, the products can play a significant role in developing a market niche for Daray. Furthermore, Daray would have to face threats including price deflation/inflation and competition from other European countries. Besides the weaknesses can be geographical proximity and some financial considerations.
4 Research approach and Methods

This section presents to the reader the fundamental methodologies and techniques applied in the study paper. Its sections clarify the key components of the research tools and the reliability and validity of the empirical research results. Plus, the respondents' short foundation is additionally given in the part, since it demonstrates the since it proves the transparency of the research conclusions and suggestions in the next

4.1 Research approach

A research can be either quantitative or qualitative or both (Bryman & Bell, 2011). Sekeran and Bougie (2016) explain that the use of different techniques results in diverse inferences, which does not make the technique more sufficient compared to another. The approach is used for the empirical research of the Thesis is quantitative research, which includes case study and data collected from interviews with expert in this field. The outcome of the research is expected to provide the opinions of interview respondent and the author. Conclusions and suggestions for the commissioner will be based on the Theoretical framework, context of research and empirical part comprised of the interviewing results and the case study.

4.2 Data Collection process

The collecting of data in a case study can be conducted in a number of ways with the help of different sources (Yin, 2017). In this section, we present a brief overview of some of the main sources of evidence for the study.

This research needed to get deeper insights in the market opportunities for the company; therefore, the qualitative research will be carried out to enable the deduction of special data from the firm and market. According to Bryman and Bell (2011) a case study strategy is useful for the intensive analysis of one unit. A case study can be single case study or multiple case studies and the appropriate approach is chosen based on the specific case and the context. The author of this study settled on a single case study, and according to Yin (2017) it is possible to get detailed information about a firm and ask specific questions. By performing a case study, this research will answer the questions of how and why (Yin, 2017).

4.2.1 Interviews

According to Bryman and Bell (2011) when it comes to qualititative research interviews are probably the most frequently used. In addition, the use of interviews in qualitative research
places more emphasis on understanding the opinions and beliefs of the respondent. In a qualitative research the researcher notes down any underlying information to ensure that the interview goes on smoothly, which assists the researcher in finding the answers to the research questions.

One of the most important sources of evidence in case studies is interviews. There are a number of ways that can be used to conduct interviews. In-depth interviews begin by enquiring about the major facts which is followed by a deeper questioning of the personal opinions of the interviewee. Conversely, a focused interview is open-ended and is mainly carried out in a conversational manner for a limited amount of time. Lastly, an interview can be carried out through the help of structured questions along the lines of a formal survey which in some studies can generate quantitative data. Irrespective of the form of interview, this source of evidence is many times targeted and concentrates on the topics of the case study and can offer perceived causal clarifications. Notably, participant’s reflexivity and poorly designed questions might bring about bias in a case study. The author of this research collected data from the case study using an interview with a worker at the case firm. According to Bryman and Bell (2011) in order to receive the information it is essential to have personal contact with the correct workers with knowledge about the issue.

Has prior experience in the international market

4.3 Data Analysis

Majority of the data analysis in this study was carried out after the completion of data collection. It was a continuous process where a number of components were put into analysis cycle in succession. In addition, the author demonstrated data analysis a resultant flow of three actions; data reduction, data display, and conclusion. According to Richards (2014) data reduction assists in narrowing down, sorting, and removing data to facilitate verification and extraction of the conclusion. Through data display, the reduced data is displayed in an orderly form to make it easier to extract the final conclusion. The last step is drawing a conclusion and verifying and it involves deriving results, noting differences and similarities, determining causal flows, and propositions in relation to the topic being studied.

4.4 Case study

According to Soy (2015) a case study allows for the investigation of a contemporary phenomenon in depth and within its real-time context, especially when the boundaries between the context and phenomenon are not clearly evident. A case study is appropriate
when a researcher is aiming to answer ‘how’ and ‘why’ questions. There are different vari-
ations within case studies as a research design; a case study may include qualitative and quan-
titative evidence; it may include single and multiple case studies and it may be car-
rried out with motives from simple presentation of separate cases to accomplish very wide
generalizations (Soy, 2015). According to Yin (2017) the main components of case study
research design include research questions, propositions, if any, unit of analysis, logic
connecting the data to propositions, and the criteria for the interpretation of results. The
study’s scope is realized by the research propositions.

4.4.1 The case study technique

A case study can be viewed as a process of interactive phases from developing a theory
to confirming/rejecting/modifying the theory and coming up with policy implications. The
initial stages of a case study consist of selecting an appropriate case and describing the
specific measures. The next stage involves conducting the case study and writing a case
report. In the last stage, based on the study’s results, conclusions are drawn which might
result to modifying, verifying, or rejecting the theory which has been developed. This might
play a role in the development of policies. The dashed-line feedback loop represents the
situation where significant findings during the process of carrying out the case study might
result to reconsidering the original theory of the study.

4.4.2 The case of Daray Food Trading Company

By considering the research questions in the current study and the sophistication of the
phenomenon, carrying out a case study seems like an appropriate choice of research
method (Yin, 2017). Daray is a Kenyan food trading wholesale distributor of the highest
quality of fresh food products. Daray produces, manufactures and exports food products
such as vegetables, fruits, and poultry meat. The company’s foreign market includes India
and North Asia. The company also has substantial sales in other parts of the world includ-
ing Brazil, Australia, and neighboring countries including Tanzania and Uganda. Even
though case studies seem to form a weak basis of generaliza-
tion, the selection of a repre-
sentative case may enable us to understand or modify generalizations.
The characteristics of Daray that were mentioned above make the company a suitable
and representative case of this research. George (2018) explains that two of the principal
uses of cases studies are obtaining the explanations and interpretations of others. Fur-
ther, qualitative research will reveal and present the different views of the case whereby
the interview in the main avenue to multiple realities. Consequently, interview was chosen
as the source of evidence in our study. As a result of time constraints, a telephone inter-
view was carried out with one of the senior executives of Daray Food Trading Company.
The interviewee’s position as a senior executive and the experience of over five years in the company makes him a suitable candidate for the purpose of this study. The interview lasted about thirty minutes and it was made up of pre-defined questions. Nevertheless, due to the perceptual characteristics of the interview’s questions, the interview ended up being conversational. The respondent had received information about the study prior to the interview, thus the interview started with the introductory information. The respondent was assured of confidentiality and the purpose of the study was explained in advance.

The respondent was asked to provide an overview with regards to the company’s involvement in the global landscape; which foreign markets the company has expanded to. In the next section, the respondent was asked to specify the factors that play an important role in the internationalization of the company with regards to the choice of foreign markets. The participant was handed pre-defined alternatives from which he could select more than one option.

The respondent was then asked to provide an overview in terms of the company’s involvement in global business i.e. which global markets the firm had expanded to. Next, the respondent was asked to specify the factors that play an important role in the internationalization of the company with a focus on the choice of international markets. Predefined alternatives were provided to the respondent which allowed him to choose at least one option. In addition, the respondent was asked for other potential factors that might lead the company to selecting a particular foreign market. Afterwards, the respondent was provided with a description of “psychic distance” and asked to specify a foreign market that Daray Food Trading Company has expanded into and he perceives as psychically close to the home market of the company (Kenya in this scenario). Likewise, the respondent was asked to specify a market that was psychically distant to Kenya. Next, the respondent was asked to specify the extent to which those markets differ from Kenya in terms of business and cultural distance in a 7-point Likert scale from totally different (7) to same (1).

The same procedure was conducted whereby the respondent was asked to specify the differences between psychically distant markets and psychically close markets and the home market with regards to food culture distance in a 7-point Likert scale from totally different (7) to totally similar (1). This was done in order to capture the impact of food culture differences in the selection of international markets. Finally, with an aim of capturing the linkage between firm performance and psychic distance, the respondent was asked to rate how various performance indicators has been changes in the last five years in both psychically distant and close markets in a 7-point Likert scale from increase more than 20 per cent to decrease more than 20 per cent. These indicators include return on equity (ROE), return on sales (ROS), return on assets (ROA) as well as return on investment (ROI).
4.5 Validity and reliability

According to Bryman and Bell (2011) validity and reliability are considered to be the most significant quality criteria when establishing and assessing the quality of a qualitative study. Validity refers to the degree to which achieved measures estimate values of the ‘true’ state of nature. Validity is a complex conception, for example Taylor, Bogdan, and DeVault, (2015) emphasize that interview questions need to succeed in defining what they are meant to describe. To accomplish the appropriate data, the correct question must be asked to gather the data, which fulfill the purpose of the research. According to Taylor, Bogdan, and DeVault, (2015) if the questions are unreliable, the collected data cannot be valid. To achieve high validity it is important to ask questions that reflect the purpose of the study.

In addition, it is essential to repeatedly explain the questions to the respondents if they need clarifications, to avert misunderstanding about the questions of the research (Robson & McCartan, 2016). In order to validate this research the author followed the concepts of validity presented by various researchers mentioned above. The author prepared reliable documentation for the interviews at the initial stages of the study by asking several concerned individuals to validate the research.

Enough time was taken during the interview to ensure that the respondent provided valid answers. Additionally, the questions were explained to the respondent and the author recorded the questions in detail. According to Bryman and Bell (2011) reliability refers to the consistency of a measure of a concept. For a case study to reach a high level of reliability the researcher needs to critically use document procedures. It is important to determine the theoretical concepts that are investigated in a bid to establish that the results could be linked to the concepts. To ensure the reliability of the research work, the information was gathered from the concerned individuals who have close link with concerned area of research. To gather correct information and data and our interview guideline consisted of open and closed ended questions. After contacting a number of employees from the company, the author finally managed to land an interview with the right employee at the company. Where the interview took place and who carried out the interviews did not have an impact on the findings of the research. All the data that was gathered was relevant to the research and quite reliable because the interview questions provided an opportunity for the respondent to express their views and provide important information about the area of research.
5 RESULTS

This section provides the reader with an account of the author’s empirical study.

5.1 Reasons to internationalize the business

The primary factors that led Daray’s intentions to internationalize their operations were due to the markets and customer demand for their products. Demand from organic food products led Daray into the international market. The respondent explains that the company initially focused on the Indian and North Asian markets. Daray initially decided to explore the foreign market in 2015 and since then they have developed crucial partnerships with food service and retail distributors around the globe. According to the respondent, reactive motives in the Indian and North Asian markets where they are facing economic difficulties as a result of the global economic crisis and slow growth led them to focus on the blooming European market and more specifically in EU member states. The direct demand from the foreign market for Agro-food products was also one of the inspirations to establish the company in a distant market. A possible entry into the EU market would allow Daray Food Trading Company to gain a substantial market share in this vast market. In addition the pace of competition, global market opportunity, market share, profit, fast rate of market growth, as well as dwindling domestic market are also factors that drive them into the EU market.

Before deciding to join the EU market, it is essential that Daray prepares itself and assess the market to check if there is a possible opportunity for this sector of activity. Following the assessment of the cultural aspects of EU residents, the organic food industry in EU, and the organic food market in EU, it was noted that the market is innovative, highly competitive, and that there is a growing consumer demand on healthy and safe products. The respondent explains that on the long-term they believe that the organic food industry will continue to grow by a higher economic growth and domestic demand. Daray has a strong innovative image and the company’s product would fit this market and positioning in organic food service sector as well as retail so the internationalization of Daray’s product in EU would in many ways, add value to the company.

5.2 Entry mode choice in foreign market

After the evaluation and investigation of the market scope and varying entry modes the author eventually arrived at the decision that the most convenient entry mode would be a direct export mode with a distributor. According to the respondent, Daray used to deal and work only with distributors and importers, and furthermore it is considered the easiest way
to approach the internationalization process. This entry mode would require less commitment compared to other entry modes. In addition, this entry mode would require less organizational resources and it would offer greater elasticity with regards to managerial actions and there are lesser risks. The chosen distributor would be in charge of selling and promoting the products, handling the stock, carrying receivables as well as catering for any credit losses that may arise.

5.3 Defining the customer profile

The target would be grocery stores, open-markets in Eu and organic food outlets. Nevertheless, the target market can always be modified, for instance Daray might chose to collaborate with potential wholesale distributors in Eu with an aim of developing Daray within this sector. A wholesale distributor would give Daray the opportunity to display their products within retail stores in Eu allowing the local consumers to appreciate the new products. The consumer target would be both women and men aged between 30 years and above, with a high purchasing power and healthy eating behaviors. In addition, the company can target grocery stores in African and Asian neighborhoods since they may have previous experiences with the company’s products and might prefer them to other organic food products in the market.

5.4 Product strategy

Having decided that Eu would be the target market, the next step would be deciding the type of products to export. During this process, it would be important to take into account the product acceptability in the Eu market, the brand name choices, the mode of packaging, and potential legal issues. As explained by the respondent, there is always a risk when entering a new market and the product decision should be decided with the help of the distributor. The objective would be to minimize the potential risk which is why there was a need to study the consumer market to decide what would be acceptable in this market.

The most appropriate decision would be to standardize the products and send them as they are on the Eu market. From a business point of view, there are a couple of reasons as to why this reason would be suitable in the initial stages. The first one would be to reduce costs and the second one would be to make economies of scale. Following the insights from Eu market, it would be advisable for Daray and the potential distributor to adapt the range of product to the demands of the consumer. However, Eu been a multi-ethnic states with different nationalities and there is a need to take this into consideration. For the brand, the respondent felt that internationalization of the products under the brand “Daray” would be the correct decision to ensure that they maintain the Kenyan touch and
also because the name is easy to remember. At the beginning stages of the internationa-
ization, the packaging would be standardized and the distributor could have the oppor-
tunity to change it though packaging.
In terms of legal parameters, there are a number of regulations that must be applied re-
garding the products. As explained in the analysis of the entry market, the regulations of
EU require Agro-food products to satisfy certain standards. The EU allows import of agro-
food supplies but it requires some hygiene rules and norms to be observed. Daray would
need to obtain a license to operate in the EU. For instance Avocados from Kenya are al-
ready exported to Europe according to Eu agro-data base center. (europa.eu)

5.5 External factors that influence internalization in foreign market

According to Hollensen (2011) there are various external drivers that can influence the
making of a decision for entry mode in a foreign market. The external factors that influ-
ence entry mode choice in foreign market are psychic distance, food and culture distance,
and market opportunities (Grünig & Morschett, 2012).

5.5.1 Psychic distance

In addition to the Eastern African market (Tanzania, Uganda, and Rwanda), Daray runs a
significant scale of business in various international markets including North Asia and In-
dia. The international expansion into these markets is made conducted through exporting
the products or direct investments in the identified markets. Consequently, business fac-
tors of a market including the legal environment, economic environment, political climate,
market structure and business practices play vital roles in the choice of the international
market entry mode for the firm. Furthermore, cultural factors such as consumer’s food cul-
ture and uncertainty avoidance play a crucial role in the choice of entry in a foreign mar-
ket. According to the respondent, Eu is perceived as a psychically close market to the
home market of Daray Food Trading Company (Kenya). On the other hand, the North
Asia is perceived as a psychically distant market to Kenya. Consequently, business dis-
tance indicators are perceived as the same or differing marginally in the psychically close
market (Eu) compared to Kenya.
Figure 14: Business distance between Kenya (benchmark) and Eu

In a similar vein, cultural distance indicators such as individualism, masculinity, and power distance are perceived as the same or slightly different in Eu compared to Kenya. Uncertainty avoidance is viewed as slightly different in Eu compared to Kenya.

Figure 15: Cultural distance between Kenya (benchmark) and Eu

In the psychically distant market (North Asia), business distance indicators are viewed as completely different or differ significantly in relation to Kenya. The business indicators include market structure, economic environment, legal and political environment, and business practices and language.

1 In distance 1 represents totally the same as Eu or no psychical distance at all and 7 represents totally different from Eu or the long psychical distance.
Individualism and power distance are viewed as completely different or differing significantly in US compared to Kenya. Nonetheless, other indicators of cultural distance i.e. masculinity and uncertainty avoidance are viewed as almost/totally the same in North Asia when compared to Kenya.

Based on the respondent's response, all of the food culture distance indicators including health related food behavior, product related food behavior, and general food behavior are viewed as almost similar in the psychically close market (Eu) in comparison to Kenya.
Conversely, all of the food culture distance indicators are seen as differing in the psychically distant market (North Asia) as compared to Eu.

### 5.5.3 Market opportunities

The respondent states that the company’s performance indicators such as ROS and ROE display an increase of around 10% in the psychically close market (Eu). Return on Investment has been reduced while Return on Assets has also risen during the past 5 years. On the other hand, almost all the performance indicators have experienced a rise by 10% in the psychically distant market (North Asia) whereas ROS displays an 10-20% increase in the past five years.
5.6 Barriers to entry

Joining a new and unknown market can present some challenges, from what the respondent said during the interview, there are expected barriers in the Eu market. According to the respondent one of the potential barriers is the highly competitive nature of the Eu market; therefore, Daray would need to play the innovative card to boost its market share in the foreign market. In retail, the company would have to work hard to achieve penetration in the market. Notably, most of the food products that are consumed by the Eu people are from EU countries so here; the purpose of Daray is to educate the Eu consumers. The other challenge would be the communication issues due to the language barrier between the two countries, but according to the respondent this does not mean that the company’s sales volume would be low. Indeed if the company manages to work with local distributors in Eu, the turnover and sales volume can be high.
6 ANALYSIS AND DISCUSSION

6.1 Psychic distance and the decision to internationalize

For Daray Food Trading Company, psychic distance is a vital element when choosing their global target markets. According to Hutzschenreuter, Kleindienst, and Lange (2016), the concept of psychic distance is descriptive component of the internationalization decisions in terms of the choice of foreign markets. As a result, knowledge about legal and political climate, economic climate, market structures, and business practices play an important role in the selection of a foreign market for Daray Food Trading Company. Additionally, knowledge about the cultural factors such as the food culture of consumers and uncertainty avoidance have crucial the selection of a foreign market. North Asia is one of the foreign markets where Daray Food Trading Company has ventured into. Nonetheless, this market is observed as psychically distant for Daray. This results from the view of both business and cultural differences between the firm’s home market and distant market (Sousa & Bradley, 2015).

Psychic distance is about the consumer psychology and consumer behaviour. One can assume that for a Kenyan company, it is easy to start selling own products to Uganda, Tanzania, Rwanda, Burundi and DRC because they have similar food habit and similar consumer behavior. They eat similar food and prepare somehow in a similar manner. Yet if the same company wants to sell to West Africa or to Europe, the psychic distance may be high (unless it targets people originating from the East African community living in these target countries. Thus, a Kenyan food producing company may find it easy to sell to an organic food store in Eu who target African and Asian customers. These sub cultures which are formed because of immigrations into the EU.

Based on the results, there is a perceived significant business and cultural difference between Daray’s home market (Kenya) and North Asia. On the other hand, the firm’s other target market, European Union, is perceived as psychically close market for Daray Food Trading Company in which it perceived low business and cultural differences when compared to the home market of the firm (Kenya). The incorporation of food and culture has made the food industry a unique sector with viable market opportunities (Charter & Tischner, 2017). Therefore, in addition to common cultural indicators in exploring the culture distance, this study presents the concept of food culture distance which places emphasis on capturing the differences in consumer’s food culture between a foreign market and a firm’s home market. Hence, food culture distance in this paper is measured whereby a significant perceived distance between Daray’s home market (Kenya) and North Asia. Nevertheless, it perceives low differences with regards to consumer’s food culture between Kenya and the psychically close markets (EU).
Evidently, the limited knowledge regarding the psychically distant market (North Asia) in relation to business and cultural issues may be the primary reason that Kenyan food exports are majorly concentrated into the psychically close markets (EU) whereby food companies have adequate knowledge about business and cultural issues. Another argument can be linked to the impact of geographical distance between the foreign market and the company’s home market which might be a barrier for the company to export its food products into the geographically distant markets. This is mainly attributed to the perishable nature of food products which require a great deal of care and preservation (Perrea, Grunert, & Krystallis, 2015). Furthermore, high transaction costs such as transportation costs to the geographically distant markets can be another reason for the Kenya food trading companies to focus their export to the geographically close markets. However, the high levels of Kenyan food exports to the United States which is significantly higher than the total export to EU countries which are placed at a significantly closer geographical distance to Kenya is almost refuting this rationale.

6.2 Psychic distance and market opportunities

This empirical study shows that Daray Food Trading Company has significant market opportunities in the psychically close market (Eu) in comparison to the company’s psychically distant market (North Asia). The results are in line with the hypothesis in the original Uppsala model of the process of a firm’s internationalization (Johanson & Vahlne, 1977) in which they argue that due to the knowledge about the psychically close markets companies tend to perform better in those markets when compared to the psychically distant markets. In addition, the findings in this study are in line with the conclusion by Prashantham, Dhanaraj, & Kumar (2015). According to Prashantham, Dhanaraj, & Kumar (2015) companies initiate their process of internationalization by venturing into those markets they can understand with minimal effort. Nonetheless, by considering the Kenya food industry with a vast majority of SMEs with capital constraints, carrying out a costly extensive market research is many times not a viable option. Accordingly, these SMEs possibly prefer to focus their international operations into the psychically close market (Eu) in which they have adequate knowledge about the cultural and business concerns and therefore have more market opportunities. Notably, due to the nature of case studies, it is barely possible to generalize the results of this study into a larger population by only analyzing only one case. Hence, the findings of this study may only be valid to the studied case (Daray Food Trading Company). Nevertheless, because this study used a representative case, the findings may be applicable in other cases and situations which are similar. Thus, this study recommends the carrying out of future studies by using more than one case and
applying preferably both qualitative and quantitative techniques to attain more generalizable findings.

6.3 Discussion

The results of this study support that the choice of entry mode in foreign market is driven and influenced by a number of external and internal factors. In addition, looking into the investigated case, the findings of this research reflect some similarities and disparities to prior studies that have been carried out and pointed out the factors that influence choice of entry mode of Kenyan Agro-food SMEs in a foreign market. With regards to the case of Daray, the management of the company is more likely interested to choose a market that has the potential to display long term benefits and assure to improve the competence of the firm as Hilmersson, and Johanson (2016) stated that a company often selects countries that show greater long-term prospects and promise to enhance the capabilities of the firm.

These findings correspond that knowledge of the concerned foreign market is crucial for the investigate firm since it facilitates the process of determining the best choice of market entry mode while prior studies (Johanson and Vahlne, 1977) indicate that knowledge of the foreign market is particularly significant to the choice of market entry mode. Nonetheless, the study also found that unique products, direct demand, advanced technology and high level of competence played an important role in attracting the investigated SME to foreign market. In addition, the study reveals that the most vital factor which influence the Kenyan SMEs entry in the EU market are the internal factors of the firm as external factors.

We know that the demand of Agro-food products in Eu is on the rise and that organic foods are viewed as healthier so Daray can take advantage of this situation to create specific products in this niche. Eu people are ready to pay premium prices for organic Agro-food products and the demand is rising, consequently Daray can increase the price of its products compared to Kenya. Another important aspect of the Eu consumer behavior is they are more aware of organic food health benefits, the demand is rising thus Daray can focus on the sale of organic foods.

This case study can be beneficial to future researchers by helping them to understand how a Kenyan SME can successfully internationalize Agro-food products in EU. The different modes of entry in an international market are developed and explained. The respondent stated that the decision of entry mode solely relied on the decisions of the firm, but he considered the export mode as the most viable to enter a new and unknown market. He advised that it would be important to be careful when selecting the other party adding that the company would need to do a lot of preparation and research before going
into the market to understand everything about the culture, consumer behavior, the food market in Eu and the possible barriers to entry.
7 CONCLUSION

The last section of this study intends to address the main research question in this research. The primary concern of this paper is to investigate the motivating factors leading to the internationalization of Kenyan food trading SMEs with regards to the choice of international markets. For this purpose, the paper concentrates on the case of Daray Food Trading Company, a wholesale distributor of the highest quality of fresh food products. Accordingly, the study aims at addressing the following research questions:

What are motivating factors that might have a crucial impact on a Kenyan food trading SME’s internationalization decisions regarding the choice of foreign market?

How may these factors influence the market opportunities of the company?

Knowledge plays a vital role in Daray Food Trading Company’s internationalization decision with regards to the choice of foreign market. In today’s world, the process of internationalization is related to many SMEs. In this research, we have seen that there are reactive and proactive reasons which trigger the internationalization process of a firm. It is therefore essential for the SME to carefully prepare for the process of entry to Eu. There is a need to carry out research on social, cultural and political characteristics of the Eu people. This research should consider the business protocols, cultural behavior and consumer etiquettes. Eu is socially and culturally diverse with diverse values, beliefs, language, and business behavior. The marketer needs to gather data about the Eu consumer behavior in relation to Agro-food products. The data which should be gathered includes their eating habits, their selection criteria and where they buy food. Moreover, the government, economical aspect, cultural aspect, taxes, and communication are important factors that should be analyzed.

Another important step in internationalization success is determining the products. The company needs to make a decision with regards to how they will sell the products. They can adopt standardization which allows them to sell the products as they are. The SME can also adapt their organic food products to the Eu market in a process known as product adoption. Using this technique, the company can take into account their brand name, packaging, and legal issues when adopting the products. This is an important step in the internationalization process, and failure to adopt the products to the Eu market can lead to expensive mistakes.

All the decisions and research led to the choice of the market entry mode. The company should base its choice on the market commitment as well as a balance of the risks and benefits of the entry mode. The easiest and most convenient entry mode for a company with limited experience of the Eu Agro-food industry is the export mode. Every market has its own pros and cons but the final decision is based on the ultimate choice of the firm.
Two aspects were taken into consideration; the attractiveness of the Eu Agro-food market and the general aspect of the country. The researcher noticed that the Eu market was highly innovative and competitive. It was also noted that the consumer demand was growing towards healthier organic products. Daray has a strong innovative image, affordable prices, and a range of organic agro-food products. The researcher concluded that their products would in many ways add value to the Eu market. The proposed entry mode was exportation because this model had shown success in other similar SMEs entering the EU market.
8 References


9 APPENDICES

European Union member states

Czech Republic, Belgium, Bulgaria, Eu, France, Greece, Great Britain, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Netherlands, Portugal, Spain, Austria, Denmark, Cyprus, Estonia, Malta, Poland, Romania, Slovakia.