

Determinants of New Market Entry by Small Scale Earthenware Manufacturers in Kenya

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Access to new markets remains a major challenge to the performance of small scale earthenware manufacturers in Kenya. While several factors that may affect the likelihood of small enterprises to access new markets have been identified in literature, the role of entrepreneurial orientation is not well understood. A survey research design was adopted to examine the effects of entrepreneurial orientation on access to new markets using a sample of 384 small-scale earthenware manufacturers from Western Kenya. The Covin and Slevin entrepreneurial orientation scale as modified by Lumpkin and Dess was utilized in this study. Factor analysis of the sub-dimensions of entrepreneurial orientation indicated that this concept is unidimensional. Estimation results using a logit model indicate that entrepreneurial orientation influences the entry of small-scale earthenware manufacturers into new markets. Policy makers interested in enhancing the entry of small businesses into new markets are therefore advised to focus on measures that can improve the entrepreneurial orientation of owners of small businesses.

Introduction

Earthenware is porous pottery usually fired at low temperatures ranging from 983°C to 1148°C. Small scale earthenware manufacturing is among the most important indigenous trades in Kenya. The National Micro and Small Enterprise Baseline Survey

estimate that there are 10,922 small-scale earthenware manufacturing enterprises in Kenya that employ some 28,785 people (International Centre for Economic Growth (ICEG) *et al.* 1999). Small scale earthenware manufacturers largely rely on the local market (Langenkamp 2000). The critical advantage of producing for the local market is that the manufacturers understand local needs and opportunities as well as the quality standards and expectations of that market. However, evidence suggests that heavy reliance on the local market is a key constraint to earnings. The customers are poor and generally buy limited range of products (Government of Kenya (GoK) 2005). Another consequence is that enterprises concentrating on the local market tend to copy from each other until they all collapse under the weight of their own competition. This is a reflection of lack of diversity in the local economy. Overall, the heavy reliance by small scale earthenware manufacturers on the local market is likely to impede their growth. This can not lead to surplus accumulation which could allow small scale earthenware manufacturers to pursue decent livelihoods. Need therefore exists to enhance the entry of small scale earthenware into new markets.

Access to new markets can be defined as a firms' ability to identify and exploit new market outlets for its products. Examples of new markets for earthenware include foreign customers and patronage by the government and local businesses. External markets for earthenware products are documented in Biggs *et al.* (1994) and in the African Growth and Opportunity Act (AGOA) (United States (US) Congress 2000). Ngari (2004) also reports that the opportunities for utilitarian earthenware (beer pots, cooking pots, water storage pots) in Kenya, is yet to be fully exploited. Accessing new

markets has been identified as a major challenge to the small-scale earthenware industry (Carson *et al.* 1995).

Scholars in entrepreneurship have for long recognized the entrepreneurial dimensions of new market entry, particularly for small firms. Schumpeter (1934) identified the opening of a new market as one of the entrepreneur's new combinations. Lumpkin and Dess (1996) clarify that "new entry" (that is entering new or established markets or launching new ventures) is an essential act of entrepreneurship. This means that entry into new markets can be described as an aspect of entrepreneurial outcomes. Entry into new markets offers expanded opportunities for disposing off surplus products. It is also an important way that entrepreneurs use to gain access to critical resources since it encourages the adoption of technology and best business practices which underlie improved performance. Therefore, identifying factors that can enhance the entry of small enterprises into new markets is necessary.

An emerging stream of research indicates that entrepreneurial orientation, an important measure of the way a firm is organized, is a critical factor in enhancing entrepreneurial outcomes such as entry into export markets (Ibeh 2004). Entrepreneurial orientation is usually seen as the extent to which a firm innovates, takes risks and acts proactively (Wiklund and Shepherd 2003; Miller 1983). Langenkamp (2000) speculates that risk taking and innovation can enhance the entry of small scale earthenware manufacturers into external markets. However, two notable gaps in the literature can be identified. First, the study by Ibeh (2004) focused on small modern manufacturing enterprises in Nigeria. It however considered only on one form of new market entry namely exporting. Thus understanding on whether entrepreneurial orientation influences

other forms of new market entry such as e-commerce, selling to the government and other businesses is incomplete. It is also unclear that the results thus obtained in this study would hold in small indigenous knowledge-based enterprises such as small scale earthenware manufacturers. This arises from the observation that contemporary small scale manufacturing enterprises and small indigenous knowledge-based manufacturing enterprises are not similar. For instance, the former tend to be formal while the latter are informal (Kimuyu 1999). Moreover, the speculations made in Langenkamp (2000) that risk taking and innovation can enhance the entry of small scale earthenware manufacturers into external markets have not been empirically validated. Researchers cannot therefore conclude that entrepreneurial orientation enhances entry into new markets by small scale earthenware manufacturers. Consequently, there is limited evidence to guide researchers, policy makers and practitioners on the role of entrepreneurial orientation on entry into new markets by small scale earthenware manufacturers. Need therefore arises to address this research gap.

To address this gap, the present study seeks to examine the role of entrepreneurial orientation on access to new markets among a sample of small-scale earthenware manufacturers in Kenya. The paper commences by outlining the nature of entrepreneurial orientation. The research methods used in this study are described next after which a discussion of the results follow. Suggestions on some possible policy and practical implications are then offered. This study is concluded by noting its limitations and possible directions for future research in this area.

The Nature of Entrepreneurial Orientation

Entrepreneurial orientation has been largely based on the work of Miller (1983) who suggests that a firm's degree of entrepreneurship could be seen as the extent to which it innovates, takes risks and acts proactively. Innovativeness is the predisposition to engage in creativity and experimentation through introduction of new products/services in the market. Risk-taking involves taking bold actions by venturing into the unknown, borrowing heavily, and/or committing significant resources to venture into unknown environments. Proactiveness is an opportunity-seeking, forward-looking perspective characterized by introduction of new products and services ahead of the competition and acting in anticipation of future demand.

Lumpkin and Dess (1996) suggest that two other dimensions of entrepreneurial orientation are salient. These are competitive aggressiveness and autonomy. Competitive aggressiveness is the intensity of a firm's effort to outperform rivals and is characterized by a strong offensive posture or aggressive response to the actions of competitors. This aspect is used to measure how entrepreneurial firms deal with threats. On the other hand, autonomy is the independent action undertaken by entrepreneurial leaders or teams directed at bringing about a new venture and seeing it to fruition. Literature suggests that entrepreneurial behaviour is often generative and creative involving the autonomous actions of organizational actors (Bird 1989). It follows then that firms that have an entrepreneurial orientation are more prone to focus attention and effort towards opportunities such as those found in new markets.

Entrepreneurial orientation refers to a firm's strategic orientation, capturing specific entrepreneurial aspects of decision-making styles, methods, and practices (Rauch

et al. 2006; Lumpkin and Dess 1996). Given the importance of entrepreneurship to firm performance, entrepreneurial orientation could be an important measure of the way a firm is organized. Specifically, entrepreneurial orientation enhances the performance benefit of the resources of firms through focusing attention on the utilization of these resources to discover and exploit opportunities (Wiklund and Sherpherd 2003). Consequently, entrepreneurial orientation can explain, in part, the managerial processes that allow some firms to be ahead of the competition. This is possible because entrepreneurial orientation facilitates firm action based upon early signals from its internal and external environments (Lumpkin and Dess 1996).

There is debate on whether or not the dimensions of entrepreneurial orientation are independent or covary under certain conditions. Covin and Slevin (1989) argue that entrepreneurial orientation is best viewed as a unidimensional concept. In contrast Lumpkin and Dess (1996) argue that entrepreneurial orientation may occur in different combinations. Kreisser *et al.* (2002) suggest that the dimensions of entrepreneurial orientation tend to vary independently. Consistent to Covin and Slevin (1989) previous research on this topic has utilized aggregated measures of entrepreneurial orientation. However, research questions the co-variance between these sub dimensions (Lumpkin and Dess 1996; Rauch *et al.* 2006). Existing research further shows that each of these sub-dimensions may make unique contributions to the levels of a firm's entrepreneurial orientation. Research offers the unique contributions that risk taking, innovation and proactiveness offer to the entrepreneurial process. The basic premise underlying this argument is that each of these sub-dimensions of entrepreneurial orientation may have a differential relationship with entrepreneurial outcomes. For example risk taking has been

shown to have a curvilinear relationship with performance while innovation has a positive and direct relationship with performance (Kreissor *et al.* 2002). Taken together this evidence suggests that using aggregated measures of entrepreneurial orientation may conceal the true nature of the relationship that exists between these sub-dimensions and entrepreneurial outcomes. The sub-dimensions of entrepreneurial orientation may vary independent of each other. An appreciation of the multidimensionality and independence of the sub-dimensions of entrepreneurial orientation can help normative and descriptive theory building.

Therefore, the dimensions of entrepreneurial orientation should be expected to have different correlations with the dynamics of small enterprises. If entrepreneurial orientation is unidimensional, we would expect the underlying dimensions; proactiveness, innovativeness, risk-taking, competitive aggressiveness and autonomy to have correlations with entry into new markets that are of similar magnitude. If the dimensions vary independently, we would expect correlations with entry into new markets of differing magnitudes. Therefore the following hypotheses are offered.

Hypothesis 1: Entrepreneurial orientation is positively related to entry into new markets.

Hypothesis 2: The different dimensions of entrepreneurial orientation (proactiveness, innovativeness, risk-taking, competitive aggressiveness and autonomy) have different correlations with entry into new markets.

Research Design

This was a survey that analyzed the effects of entrepreneurial orientation on access to new markets by small-scale earthenware manufacturers in Kenya. This design is appropriate in testing the relationship between the different components and variables of entrepreneurial phenomena such as access to new markets (Saunders *et al.* 2003). It is also useful in deriving policy prescriptions.

More than 60% of the small-scale earthenware manufacturers in Kenya are found in the western part of the country (Langenkamp 2000). Therefore, this region was adopted as the study site. The specific sites for this study were randomly selected as Kakamega, Bungoma and Kisumu districts.

The population of this study included all small-scale earthenware manufacturers in the country. The target population for this study included all the earthenware manufacturers in the Western region of Kenya.

A sampling list of earthenware manufacturers in the study area was constructed from lists provided by the district cultural officers in the three study sites respective county councils and sites in Kakamega, Bungoma and Kisumu. From this sampling frame, proportionate stratified random sampling was used to select the study sample. Stratification was based on the three study sites. Following the formula offered in Saunders *et al.* (2003), the minimum sample size for this study was calculated to be 384 respondents. Any enterprise that declined to be surveyed was replaced by the next randomly selected firm until the minimum sample size was attained.

Measurement of Variables

The dependent variable for this study was access to new markets. Accessing new markets was defined as patronage by foreign customers, the government and local businesses in the last twelve months. Successful access to new markets in the last twelve months was labelled one, otherwise zero. Measuring access to new markets in this manner is consistent to the approach taken by Ibeh (2004).

The independent variable for this study was entrepreneurial orientation. The Covin and Slevin (1986) scale as modified by Lumpkin and Dess (1996) was used to measure entrepreneurial orientation. This is a five point (1 = strongly disagree to 5 = strongly agree) and fourteen item scale. It measures innovativeness, proactiveness, risk-taking propensity, autonomy and competitive aggressiveness.

The personal characteristics of the entrepreneurs were also assessed. This included age, gender, level of education, networks and experience. Age was measured as the number of years since birth. Gender was measured as a binary variable with males assigned as one and females as two. Education was measured in two ways following Ibeh (2004). In the first, the highest level of formal education attained was sought while in the second, the number of trainings (workshops, seminars, conferences) attended by the earthenware manufacturers in last three years were solicited. Networks were measured using a dichotomous variable with membership into a business association labeled one, otherwise zero. Experience was measured as the total number of years in the earthenware industry. It was also measured by asking the respondents to state whether they had taken any previous formal employment.

Two characteristics of the firm were also measured. This included the legal status of the business and the level of production. The legal status of the enterprise was measured in four levels: sole proprietorship, partnerships, corporate and group owned enterprises. The level of production was taken as the average number of pots made in a month.

Data Collection

A questionnaire was used to collect data. This research tool was tested for reliability and validity in two ways. First, the variables in this study were obtained from previous studies and tested for relevance. Second, experts in entrepreneurship were also used in the selection of variables. The questionnaire underwent a double translation, first into Luhya and Luo languages. Then the questionnaires in the two local languages were translated back into English. This ensured that the questionnaire captured the variables of interest accurately.

The questionnaire was pre-tested on 40 earthenware manufactures in Western Kenya. The data collected in this exercise were used to improve the research tool and were not reported in this study.

The questionnaire was administered by the researcher with the help of two research assistants. These research assistants were trained on the handling of the research tool and the topic under study before being allowed to collect data. The research assistants were closely supervised by the researcher during the data collection. The questionnaire took approximately ten minutes to administer. Data collection took approximately 90 days.

Data Analysis

Several methods of analyzing data were adopted in this study. The data was summarized and presented using percentages, means and standard deviation (SD). To examine relationships among variables, cross tabulation, t tests, chi square, correlation coefficients and a logit model were utilized. Logit models are useful for situations in which researchers want to predict the presence or absence of a characteristic or outcome based on values of a set of predictor variables. It is suited to models where the dependent variable is dichotomous. Logistic regression coefficients are used to estimate odds ratios for each of the independent variables in the model (Mukras 1993). One advantage of logit models is that they do not rely on rigid data distributional assumptions.

The logit model estimated in this study took the following form:

$$\begin{aligned} \text{Prob (access to new markets)} \\ = 1 / (1 + e^{-Z}) \end{aligned}$$

where $Z = f(X_i, C)$, that is the linear combination of independent variables (X_i) and a constant (C).

Following Mukras (1993) this model can be re-written as:

$$Z_{(i)} = \beta_0 + \sum \beta_i X_i + \mu_i$$

The parameters of the model above were estimated using the iterative maximum likelihood procedure as this method yields unbiased and asymptotically efficient and consistent parameter estimates. Since the explanatory variables do not have the same

level of influence on the firms decision to enter a new market, marginal effects of these variables were estimated as well.

The significant level for this study was taken to be p values of less than 0.05. All the quantitative analyses in the study were conducted using the Statistical Package for the Social Sciences (SPSS) version 13.0.

RESULTS

Sample Characteristics

A total of 384 small-scale earthenware manufacturers in Western Kenya were sampled for this study. Three quarters of the respondents in this study were women. The mean age of the study respondents was 47.7 years ($SD = 14.14$ years). Thirteen percent of the respondents indicated that they had previous formal employment experience. Ninety percent of the respondents indicated that they had no previous entrepreneurial experience. The mean industry experience for the respondents was 20.16 years ($SD = 16.73$ years). Seventy two percent of the respondents had primary school level of education. Fifty-six per cent of the respondents had not received any form of training. Thirty-five per cent of the respondents were trained in pottery while 5 percent of the respondents had business-related training. Only two per cent of the respondents were members of a business association.

Sixty percent of the respondents operated as sole proprietors, thirty seven percent as a group and the remaining three percent operated as registered companies. The mean production level of the sampled enterprises was 114.4 pots ($SD = 140.91$ pots).

Accessing New Markets

Four percent of the study respondents indicated that they had accessed new markets in the last twelve months. The means, standard deviation and correlation coefficients of continuous variables are offered in Table 1. This table indicates that the correlations of the sub-dimensions of entrepreneurial orientation have different magnitudes. Further, this table indicates that innovation is positively and statistically correlated with competitive aggressiveness, autonomy, risk taking and proactiveness. All the other sub-dimensions of entrepreneurial orientation are also significantly and statistically correlated with each other. This is an indicator that entrepreneurial orientation may be a unidimensional concept. This observation is given further support from factor analysis. The five sub-dimensions of entrepreneurial orientation loaded on one factor which explained 54 percent of the variance. This factor had a reliability coefficient of ($\alpha = 78.05$ percent). Consequently, hypothesis 2 is not supported is therefore rejected.

Table 1: Correlation Coefficients

	Mean	SD	1	2	3	4	5	6	7
1. Trainings	1	0.95	1						
2. Innovation	5.03	2.26	-.028	1					
3. Competitive Aggressiveness	5.35	2.04	.011	.558*	1				
4. Autonomy	4.93	2.08	.027	.490*	.511*	1			
5. Risk	3.28	1.6	.042	.476*	.416*	.349*	1		
6. Proactiveness	5.42	2.61	-.269*	.521*	.469*	.221*	.252*	1	
7. Risk Squared	13.26	14.2	.039	.435*	.378*	.340*	.977*	.242*	1

* Significant at 0.05 level

A binary logistic model was also estimated. A Logit model was used to predict access into new markets from the variables: education, entrepreneurial experience, number of trainings attended and the five dimension entrepreneurial orientation. It appears that the model does a good job in explaining variation in access to new markets (Nagelkerke $R^2 = 0.368$). The classification table (Table 2) provides an additional way to assess the model fit by comparing predicted and observed outcomes. More specifically, the table compares the observed and predicted firms that access new markets when firms with a predicted probability of 0.5 or greater are classified as having accessed new markets. In other words, this table shows only whether the estimated probability is greater than one half. The off-diagonal entries show the number of small-scale earthenware manufacturers that were incorrectly classified. Overall, 95% of the firms were correctly classified. The Hosmer and Lemeshow Test offers further evidence of the model fit. In this test, significant levels of below 0.05 indicate poor model fit. Therefore, the estimated Logit model fits the data well since $p > 0.05$.

Table 2: Classification Table

		Predicted		Percentage Correct
		Access New markets No	Yes	
Observed Access to new markets	No	302	3	99.0
	Yes	12	3	20.0
Overall Percentage				95.3

Table 3 provides the estimated coefficients of the Logit model under column heading B. Only two variables are significant at the 0.05 level. These are entrepreneurial orientation and attending trainings.

Table 3: Parameter Estimates of the Logit Model

	B	S.E.	Wald	df	Exp(B)
Education (None)			4.117	2	
Education (Above primary)	-.406	1.417	.082	1	.666
Education (Primary)	.966	1.435	.454	1	2.629
Entrepreneurial Experience	-15.254	4809.814	.000	1	.000
Entrepreneurial Orientation	.294*	.139	4.496	1	1.342
Attending Trainings	2.527*	1.124	5.057	1	12.514
Membership into Business Association	-2.008	1.236	2.637	1	.134
Constant	-4.385*	2.220	3.901	1	.012
Nagelkerke R Square	.368				

* Significant at the 0.05 level

The regression results show that the five dimension entrepreneurial orientation has a positive and statistically significant influence on the decision of small-scale earthenware manufacturing firms to access new markets. A B-value of .294 means in theory that an increase in entrepreneurial orientation by one unit is associated with an odds ratio of $e^{.294} = 1.342$ of accessing new markets. This offers further support for hypothesis 1.

The estimation results suggest that attending trainings is positively and statistically associated with accessing new markets. The estimated marginal effect for this parameter is 2.5274 which gives an odds ratio of $e^{2.5274} = 12.514$. This shows a very strong influence of attending training courses and access to new markets.

DISCUSSION

This study examined the effects of entrepreneurial orientation on new market entry using a sample of small scale earthenware manufacturers in Kenya. The study established that 4% of the study respondents had accessed new markets. This result offers

support to the observation that access to new markets is a challenge to small enterprises (Carson *et al.* 1995; ICEG *et al.* 1999). The challenge of accessing new markets by small enterprises appears not to improve over time. This is indicative of lack of supportive policy and institutional frameworks that could link small scale earthenware manufacturers to high value markets.

A key finding of this study is that there is a positive and statistically significant relationship between entrepreneurial orientation and new market entry. This result collaborates the finding reported by Ibeh (2004) that entrepreneurial orientation drives entry into export markets. Further, the empirical evidence offered in this study gives credence to the claim by Langenkamp (2000) that risk taking and innovation can enhance the entry of small scale earthenware manufacturers into external markets. This means that some cumulative evidence is emerging on the crucial role of entrepreneurial orientation as a driver of new market entry. Based on this result, it is safe to conclude that businesses benefit from pursuing an entrepreneurial orientation. The term entrepreneurial orientation describes a fairly consistent set of related activities or processes such as planning, analysis, decision making, and many aspects of an organization's culture, value system, and mission (Hart 1992) which are prerequisites in entry into new markets. As a firm-level strategy-making process, entrepreneurial orientation is used by firms to enact their organizational purpose, sustain their vision, and create competitive advantage(s) when faced with the option of entering new markets.

Attending trainings was also found to be positively and statistically associated with entry into new markets. This finding is consistent with results reported in Ibeh (2004) that training influences access to newer markets. Therefore, some evidence is

emerging on the role of training on access into new markets. Training improves the attitude, skills and knowledge of the entrepreneurs which makes them more likely to identify and exploit new market outlets. Training also enhances the ability to identify market opportunities and broadens one's network density.

The study has implications for entrepreneurship theory development. First, this study adds value to the concept of entrepreneurial orientation by empirically investigating its applicability in a developing economy. It also has some theoretical value in its attempts to extend the concept of entrepreneurial orientation into access to new markets by small businesses. Secondly, the study offers empirical evidence of the effects of entrepreneurial orientation on new market entry, an entrepreneurial outcome that is largely neglected by entrepreneurial orientation scholars. Finally, the study revealed that entrepreneurial orientation is not equally beneficial in all contexts because there are moderators present, such as attending training.

The policy relevance of this study rests on its provision of empirical evidence on the effects of entrepreneurial orientation on entry into new markets. This evidence can be used to device appropriate policies and strategies to enhance access to new markets by small enterprises. Overall, the evidence provided in this study suggests that entrepreneurial orientation is beneficial in new market entry. Thus enhancing entrepreneurial orientation through training may increase the likelihood of new market entry by small-scale earthenware manufacturers.

This study is not without limitation. This is a cross sectional study and therefore the causal direction between entrepreneurial orientation and new market entry can be called into question. While there are conceptual arguments in favor of entrepreneurial

orientation affecting new market entry, the other causal direction is also possible. Entry into new markets may force an enterprise to adopt an entrepreneurial orientation. A suitable approach would be to conduct a panel study where data are repeatedly gathered from a cohort of new ventures as this would allow cross-lagged regression analysis, which could help tease out the causal relationship between entrepreneurial orientation and entry into new markets.

Conclusion

In conclusion, this study contributes to one of the most important questions facing entrepreneurship research today, namely, why some people, and not others, recognize opportunities, and with what effect (Shane and Venkataraman 2000). The study responded directly to this fundamental, yet unresolved, question. The findings underscore the importance of the strategic processes that small businesses utilize to enter into new markets. This study has demonstrated that the organizational and strategic processes (entrepreneurial orientation) adopted by small businesses are important because they facilitate the manipulation of resources into attaining important entrepreneurial outcomes such as entry into new markets.

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