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Dr. Bruno Mugambi Linyiru and Dr. Rutto Peter Ketyenya

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INFLUENCE OF INNOVATIVENESS ON PERFORMANCE OF STATE CORPORATIONS IN KENYA

[1*]Dr. Bruno Mugambi Linyiru, [2] Dr. Rutto Peter Ketyenya

[1]Jomo Kenyatta University of Agriculture and Technology

*Corresponding email address: blinyiru@gmail.com

[2]Dedan Kimathi University of Technology

Corresponding email address: dr.peterrutto@gmail.com

ABSTRACT

Purpose: The purpose of this study was to establish the influence of innovativeness on performance of state corporations in Kenya.

Methodology: The study adopted an explanatory research design. The population of the research consists of the 187 state corporations in Kenya as at 2013. The unit of analysis was the state corporation. A purposive sample of 55 commercial state corporations was included in the study. The study used primary data gathered using questionnaires.

Results: Results indicated that innovativeness is a key determinant of firm performance for commercial state corporations in Kenya.

Policy recommendation: The study recommends that firms can increase the innovative capability of their firms by paying more attention towards learning orientation and entrepreneur orientation to improve performance. The investment in learning based capabilities and developing of entrepreneurial instinct to exploit opportunities plays a key role in the maintenance of innovativeness.

Keywords: *innovativeness, state corporations, performance*

INTRODUCTION

Innovativeness reflects a firm's tendency to engage in, and support, new ideas, uniqueness, experimentation and creative processes that may result in new products, services, or technological processes (Clark, 2010; Lumpkin and Dess, 1996). Innovative firms have capabilities to monitor the market changes and respond quickly, thus capitalising on emerging opportunities (Wiklund, 1999). According to Huse et al. (2005), firms operating in turbulent environments are often characterised by rapid and frequent new product creation and high levels of research and development. Such environments appear to play a crucial role in influencing corporate entrepreneurship in an organisation. Environmental changes stimulate firms to innovate by introducing new technologies, new products, service and processes to take advantage of opportunities arising from the dynamic environment (Huse et al., 2005). Environmental

change can cause the firm to search for new means to remain competitive, which foster process innovation activities. Innovation keeps firms ahead of their competitors, thereby gaining a competitive advantage that leads to improved financial results (Wiklund, 1999).

Zahra and Garvis (2000) define innovation as the firm's ability to create new products and successfully introduce them to the market. Innovation also revises the firm's knowledge base, allowing it to develop new competitive approaches, which can be exploited in new foreign markets to achieve growth and profitability (Zahra and Garvis, 2000). Clark (2010) found that companies that are clearly innovators based their focus on new innovations, the number of new innovations and levels of investment in new innovations.

Venter et al (2008), state that at the centre of entrepreneurship is innovativeness". An organisation that innovates is classified as being entrepreneurial. Entrepreneurial activities influence a company's commitment to innovation (Miller, 1983; Lumpkin and Dess, 1996) by offering innovative products and processes. According to Huse et al. (2005), innovation has become a source of international competitive advantage.

Zahra and Garvis (2000) stated that innovation can also lead to the development of key capabilities that can improve a firm's performance. They also put emphasis on the fact that innovation generates products, goods, processes, services and systems that can be used to meet customer needs and build a strong market position. Thus innovation can improve the firm's profitability and fuel its growth. Better profitability and sustainability are also realised from continuous innovation by the entrepreneurial organisation. Huse et al. (2005) stated that innovation can be distinguished in three ways: the development of new products and services, the adoption of new technologies with an intention to improve production methods, the establishment of novel organisational structures and administrative systems.

Innovation involves reinventing products in a profitable manner (Venter et al., 2008). The level of entrepreneurial behaviour by the organisation allows the company constantly to evaluate the potential possible business opportunities that will bring growth and sustainable business (Lumpkin and Dess, 1996).

Innovation can be forced by industrial factors (fast technology changes in the industry, customer demands), environmental dynamism (new processes, technology) and international activities such as international diversification (Huse et al., 2005). According to Lumpkin and Dess (1996), a level of expenditure and a number of resources dedicated to research and development represent a firm's involvement in innovation activities. Innovation stimulates firms to behave entrepreneurially. According to Venter et al (2008), most technological firms use innovation to achieve objectives such as maximum profits, gaining market share, creating niche markets and adding value for stakeholders.

Statement of the Problem

In the constantly changing business environment companies tend to seek for new opportunities on the market where they can develop and sustain their competitive advantage and outperform competitors. In some environments, innovativeness of a firm leads to higher firm performance, and, thus, firms tend to be more entrepreneurial in order to improve their position on the market (Rauch et al., 2009). State corporations in Kenya have performed poorly compared to their

private counterparts. Evidence of this is in the poor performance contracting results by majority of parastatals. Specifically, only a few commercially oriented corporations have reported profit or surplus. This is an economic problem that policy makers are still grappling with. The problem of poor performance of commercial parastatals represents a drain on the exchequer and also results into non delivery on intended services. This has a negative implication on the welfare of Kenyan Citizens and may also imply that Vision 2030 is not met.

In Kenya, many studies (Lwamba, Bwisa and Sakwa, 2014; Mokaya, 2012; Mayaka, 2006; Ongore and K'Obonyo, 2011; Miring'u and Muoria, 2011; Mang'unyi, 2011) have been conducted on factors that influence performance of enterprises; however, they fail to address commercial state corporations. For example, Mayaka (2006) in their studies of leading Kenya companies concentrated on the factors that lead to the companies' success in order to develop a case study.

Objectives

i. To evaluate the influence of innovativeness on performance of state corporations in Kenya.

LITERATURE REVIEW

Schumpeterian Theory on Innovations

Schumpeter's (1934) theory of innovative profits emphasized the role of entrepreneurship (his term was entrepreneurial profits) and the seeking out of opportunities for novel value and generating activities which would expand (and transform) the circular flow of income through risk taking, pro activity by the enterprise leadership and innovation which aims at fostering identification of opportunities through intellectual capital of entrepreneur to maximize the potential profit and growth.

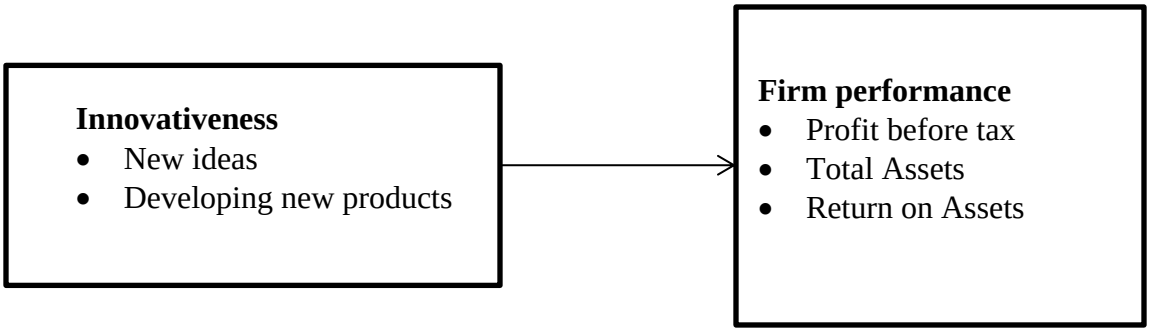
Schumpeterian growth theory goes beyond economist theory by distinguishing explicitly between physical and intellectual capital, and between saving, which makes physical capital grow, and innovation, which makes intellectual capital grow. It supposes that technological progress comes from innovations carried out by firms motivated by the pursuit of profit, and that it involves what Schumpeter called "creative destruction". That is, each innovation is aimed at creating some new process or product that gives its creator a competitive advantage over its business rivals; it does so by rendering obsolete some previous innovation; and it is in turn destined to be rendered obsolete by future innovations (Schumpeter, 1934).

Endogenous growth theory challenges this neoclassical view by proposing channels through which the rate of technological progress, and hence the long-run rate of economic growth, can be influenced by economic factors. It starts from the observation that technological progress takes place through innovations, in the form of new products, processes and markets, many of which are the result of economic activities. For example, because firms learn from experience how to produce more efficiently, a higher pace of economic activity can raise the pace of process innovation by giving firms more production experience. Also, because many innovations result

from R&D expenditures undertaken by profit-seeking firms, economic policies with respect to trade, competition, education, taxes and intellectual property can influence the rate of innovation by affecting the private costs and benefits of doing R&D (Dinopoulos & Thompson, 1998).

Schumpeter, as cited by Swedberg (2000), pointed out economic behavior is somewhat automatic in nature and more likely to be standardized, while entrepreneurship consists of doing new things in a new manner, innovation being an essential value. As economics focused on the external influences over organizations, he believed that change could occur from the inside, and then go through a form of business cycle to really generate economic change. He set up a new production function where the entrepreneur is seen as making new combinations of already existing materials and forces, in terms of innovation; such as the introduction of a new good, introduction of a new method of production, opening of a new market, conquest of a new source of production input, and a new organization of an industry (Casson, 2002). For Schumpeter, the entrepreneur is motivated by the desire for power and independence, the will to succeed, and the satisfaction of getting things done (Swedberg, 2000). He conceptualized 'creative destruction' as a process of transformation that accompanies innovation where there is an incessant destruction of old ways of doing things substituted by creative new ways, which lead to constant innovation (Aghion & Howitt, 1992).

The entrepreneur's crucial significance to the dynamics of the capitalist system flows from the fact that it is the entrepreneur's innovations that disrupt the economy and move it forward from one equilibrium to the other. Rather than adapting to external pressures, the entrepreneur destroys the static equilibrium from within the system by inventing new products, processes or behaviors that contrast the routine systems and activities (McDaniel, 2005; Drejer, 2004).



Conceptual framework: Figure 1

RESEARCH METHODOLOGY

This study was quantitative in nature and employed an explanatory research design. This study comprised of 187 state corporations in Kenya which also form the target and accessible population. A purposive sampling methodology was employed since 55 commercial state corporations were selected from a total of 187 state corporations. Each firm was issued with one questionnaire which can either be filled by the chief executive officer, company secretary, finance director, division directors or business development manager.

The study used questionnaires to obtain qualitative data for analysis which was further validated from analysis of secondary data. To check the validity and reliability of the questionnaires in gathering the data required for purposes of the study, a pilot study was carried out. Descriptive statics was used to present results.

RESULTS AND DISCUSSION

Response Rate

The number of questionnaires, administered to all the respondents, was 55. A total of 45 questionnaires were properly filled and returned from the commercial state corporation employees. This represented an overall successful response rate of 82%. According to Mugenda and Mugenda (2003), a response rate of 50% or more is adequate. Babbie (2004) also asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good.

Table 1: Response Rate

Response Rate	Frequency	Percent
Returned	45	82%
Unreturned	10	18%
Total	55	100%

Gender of the Respondents

The respondents were asked to indicate their gender. Figure 2 that majority (80%) of the respondents was male and 20% were female. The findings imply that state corporation sector is a male dominated field. According to Ellis et al. (2007), in spite of women being major actors in Kenya's economy, and notably in agriculture and the informal business sector, men dominate in the formal sector citing the ratio of men to women in formal sector as 0.74 : 0.26.

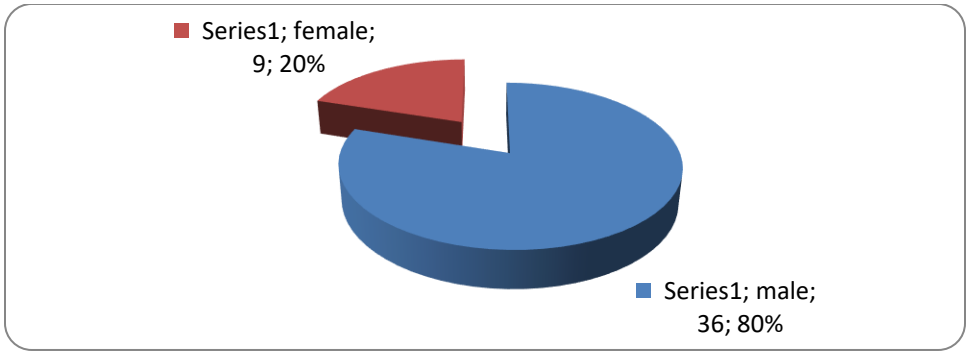


Figure 2: Gender of the Respondents

Level of Education

The respondents were asked to indicate their highest level of education. Figure 3 illustrates that 89% of the respondents had reached post graduate level and 11% had attained university level. The findings imply that most of the respondents had high level of education which could have contributed to accurate responses.

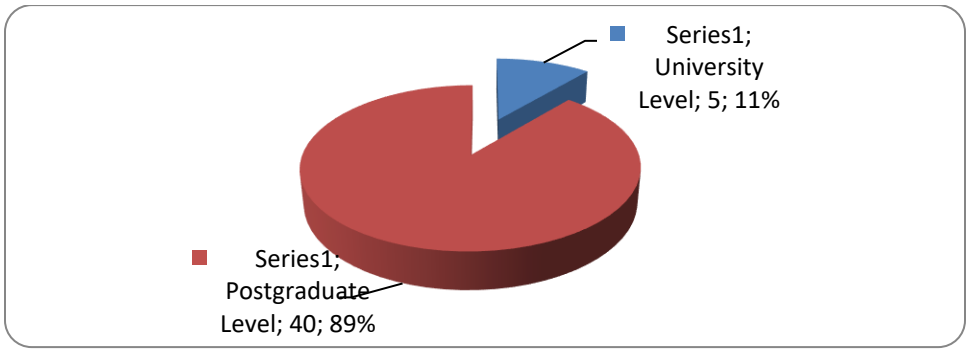


Figure 3: Level of Education

Years Worked in the Organization

The study sought to find out the years the respondents had worked in the organization. Table 2 shows that 51.1% of the respondents indicated they had worked for 6 years and above while 42.2% indicated between 3 to 5 years and 6.7% indicated less than 2 years. The findings imply that the respondents had worked long enough in the hotel industry and hence had knowledge about the issues that the researcher was looking for.

Table 2: Years Worked in the Organization

Years worked	Frequency	Percent
Less than 2 years	3	6.7
3-5 years	19	42.2
6 years and above	23	51.1
Total	45	100

Size of Organization

The respondents were asked to indicate the size of the organization. Figure 4 indicates that 49% of the respondents indicated that their organizations were large (500 employees and above) while 44% indicated small (1-249 employees) and 7% indicated medium (250-499 employees).

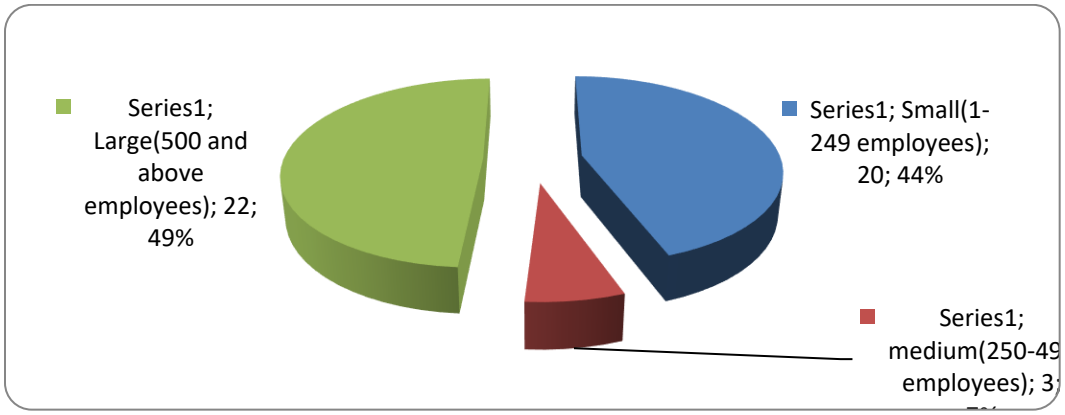


Figure 4: Size of the Organization

Years of the Firm Existence

The respondents were asked to indicate the years of the firms' existence. Table 3 shows that 66.7% of the respondents indicated 16 years and above while 20% indicated between 11-15 years and 13.3% indicated between 1-5 years.

Table 3: Years of the Firm Existence

Years of the firm`s existence	Frequency	Percent
1-5 years	6	13.3
11-15 years	9	20
16 and above years	30	66.7
Total	45	100

Innovativeness and Firm Performance

Reliability Tests

Using Cronbach's Coefficient Alpha test on innovativeness and firm performance, a coefficient of 0.792 was found as shown in Table 4. These results corroborates findings by Saunders Lewis and Thornhill (2009) and Christensen, Johnson and Turner (2011) who stated that scales of 0.7 and above, indicate satisfactory reliability. Based on these recommendations, the statements under the innovativeness variable of this study were concluded to have adequate internal consistency, therefore, reliable for the analysis and generalization on the population.

Table 4: Reliability Test for Innovativeness

Statement	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Our company frequently tries out new ideas	0.703	0.721
Our company is creative in its methods of operation	0.61	0.743
Our company seeks out new ways to do things	0.568	0.757
Company's emphasis on developing new products	0.562	0.756
Our Company spends on new product development activities	0.513	0.768
Our company Invests in developing proprietary Technologies	0.341	0.809
Number of items	6	
Cronbach's Alpha	0.792	

Sampling Adequacy

To examine whether the data collected was adequate and appropriate for inferential statistical tests such as the factor analysis, regression analysis and other statistical tests, two main tests were performed namely; Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Barlett's Test of Sphericity. For a data set to be regarded as adequate and appropriate for statistical analysis, the value of KMO should be greater than 0.5 (Field, 2000).

Findings in Table 4.19 showed that the KMO statistic was 0.660 which was significantly high; that is greater than the critical level of significance of the test which was set at 0.5 (Field, 2000). In addition to the KMO test, the Bartlett's Test of Sphericity was also highly significant (Chi-square = 93.273 with 15 degree of freedom, at $p < 0.05$). The results of the KMO and Bartlett's Test are summarized in Table 5. These results provide an excellent justification for further statistical analysis to be conducted.

Table 5: Innovativeness KMO Sampling Adequacy and Bartlett's Sphericity Tests

Kaiser-Meyer-Olkin Measure	0.660
Bartlett's Chi- Square	93.273
Bartlett's df	15
Bartlett's Sig.	0

Factor Analysis

Factor analysis was conducted after successful testing of validity and reliability using KMO coefficient and cronbach alpha results. Factor analysis was conducted using Principal Components Method (PCM) approach. The extraction of the factors followed the Kaiser Criterion where an eigen value of 1 or more indicates a unique factor. Total Variance analysis indicates that the 6 statements on innovativeness and firm performance can be factored into 1 factor. The total variance explained by the extracted factor is 50.35% as shown in Table 6.

Table 6: Innovativeness Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.021	50.352	50.352	3.021	50.352	50.352
2	1.113	18.557	68.909			
3	0.701	11.676	80.585			
4	0.627	10.455	91.039			
5	0.314	5.24	96.279			
6	0.223	3.721	100			

Extraction Method: Principal Component Analysis.

Table 7 shows the factor loadings for sub-constructs of innovativeness. All the statements attracted coefficients of more than 0.4 hence all the statements were retained for analysis. According to Rahn (2010) and Zandi (2006) a factor loading equal to or greater than 0.4 is considered adequate. This is further supported by Black (2002) who asserts that a factor loading of 0.4 has good factor stability and deemed to lead to desirable and acceptable solutions.

Table 7: Factor Loading for Innovativeness

Item	Factor loading
Company's emphasis on developing new products	0.936
Our Company spends on new product development activities	0.932
Our company frequently tries out new ideas	0.912
Our company seeks out new ways to do things	0.897
Our company is creative in its methods of operation	0.897
Our company Invests in developing proprietary Technologies	0.82

Descriptive Analysis

The third objective of the study was to evaluate the influence of innovativeness on performance of state corporations in Kenya. Table 8 shows 71.1% of the respondents agreed that their company frequently tries out new ideas, 64.4% agreed that their company was creative in its methods of operation and 73.4% agreed that their company seeks out new ways to do things. Fifty three point four percent of the respondents agreed that company's emphasis on developing new products, 51.1% agreed that their company spends on new product development activities and 57.7% agreed that their company invests in developing proprietary Technologies. The mean score for responses for this section was 3.55 which indicates that majority of the respondents agreed that innovativeness was a key determinant of firm performance.

Means greater than 1 and less than 1.5 implied that innovativeness influenced performance to no extent. Means greater than 1.5 and less than 2.5 implied that innovativeness influenced performance to a little extent. Means greater than 2.5 and less than 3.5 implied that innovativeness influenced performance to a moderate extent. Means greater than 3.5 and less than 4.5 implied that innovativeness influenced performance to a greater extent. Means greater than 4.5 implied that innovativeness influenced performance to a very great extent.

The standard deviation on the other hand describes the distribution of the response in relation to the mean. It provides an indication of how far the individual responses to each factor vary from the mean. A standard deviation of more than 1 indicates that the responses are moderately distributed, while less than 1 indicates that there is no consensus on the responses obtained. An average of 0.923 for all statements on innovativeness indicates that the responses are moderately distributed.

The findings agree with those in Clark (2010) who found that companies that are clearly innovators based their focus on new innovations, the number of new innovations and levels of investment in new innovations. The findings are also supported by Venter et al (2008) who stated that at the centre of entrepreneurship is innovativeness. An organization that innovates is classified as being entrepreneurial. Entrepreneurial activities influence a company's commitment to innovation (Miller, 1983; Lumpkin and Dess, 1996) by offering innovative products and processes. According to Huse et al. (2005), innovation has become a source of international competitive advantage.

The study findings are consistent with those of Zahra and Garvis (2000) who stated that innovation can also lead to the development of key capabilities that can improve a firm's performance. They also put emphasis on the fact that innovation generates products, goods, processes, services and systems that can be used to meet customer needs and build a strong market position. Thus innovation can improve the firm's profitability and fuel its growth. Better profitability and sustainability are also realized from continuous innovation by the entrepreneurial organization.

Table 8: Innovativeness and Firm Performance

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Likert Mean	Std. Deviation
Our company frequently tries out new ideas	0.0%	17.8%	11.1%	57.8%	13.3%	3.67	0.929
Our company is creative in its methods of operation	4.4%	11.1%	20.0%	51.1%	13.3%	3.58	1.011
Our company seeks out new ways to do things	0.0%	13.3%	13.3%	66.7%	6.7%	3.67	0.798
Company's emphasis on developing new products	0.0%	20.0%	26.7%	46.7%	6.7%	3.4	0.889
Our Company spends on new product development activities	4.4%	6.7%	37.8%	40.0%	11.1%	3.47	0.944
Our company Invests in developing proprietary Technologies	0.0%	20.0%	22.2%	44.4%	13.3%	3.51	0.968
Average	1.5%	14.8%	21.9%	51.1%	10.7%	3.55	0.923

Relationship between Innovativeness and Firm Performance

Table 9 shows the correlation results which indicate that there was a positive and significant relationship between innovativeness and firm performance. This was evidenced by the p value of 0.000 which is less that of critical value (0.05)

Table 9: Relationship between Innovativeness and Firm Performance

Variable		Firm performance	Innovativeness
Firm performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Innovativeness	Pearson Correlation	0.642	1
	Sig. (2-tailed)	0.000	

Binary logistic regression was used to model relationship between innovativeness and firm performance**.** Table 10 shows that innovativeness was statistically associated with firm performance ($p<0.002$). An increase in innovativeness increases the probability of having high firm performance by 9.409 times. The findings imply that those firms with high innovativeness have higher chances of having higher firm performance as compared to those without or with low innovativeness.

Table 10: Logistic Regression for Innovativeness

Variable	Beta	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
Innovativeness	2.242	0.731	9.399	1	0.002	9.409	2.245	39.435
Constant	-7.419	2.573	8.312	1	0.004	0.001		

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of the Findings

The objective of the study was to evaluate the influence of innovativeness on performance of state corporations in Kenya. The study findings indicated that innovativeness has contributed to excellent firm performance of commercial state corporations. The study findings indicated that the firms frequently tried out new ideas, they were creative in methods of operation and the company sought out new ways to do things. The firms also emphasized on developing new products, spent on new product development activities and invested in developing proprietary Technologies. Logistic regression results showed that innovativeness was statistically associated with firm performance ($p<0.002$). An increase in innovativeness increases the probability of having high firm performance by 9.409 times. The findings imply that those firms with high innovativeness have higher chances of having higher firm performance as compared to those without or with low innovativeness.

Conclusions

Innovativeness had a positive effect on firm performance. It can therefore be concluded that firms are trying to be innovative and therefore, it can be said that innovativeness, as a dimension of corporate entrepreneurship, is a factor that has an influence on the performance of commercial state corporations. Results led to the conclusion that there is a stronger link between innovations and inventions of products and the company's performance in production companies, while service oriented companies are showing better results when compared with major competitors.

Recommendations

The study recommends that firms can increase the innovative capability of their firms by paying more attention towards learning orientation and entrepreneur orientation to improve performance. The investment in learning based capabilities and developing of entrepreneurial instinct to exploit opportunities plays a key role in the maintenance of innovativeness.

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