

Exploring Innovativeness Dimension of Corporate Entrepreneurship on Financial Performance of Manufacturing Firms in Kenya

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Abstract

Utilizing the conceptual model of the Entrepreneurial Orientation (EO) performance relationship, we explore the effect of innovativeness dimension of corporate entrepreneurship (CE) on financial performance of Kenya's manufacturing firms. Specifically, we establish the effect of product innovativeness on financial performance; the effect of process innovativeness on financial performance; and the effect of organizational innovativeness on financial performance of manufacturing firms in Kenya. Data gathered from 186 manufacturing firms in Kenya supports hypotheses one (H_{01}) and three (H_{03}); and rejects hypothesis two (H_{02}). The implications of these findings for managerial practice, policy makers and future researches are discussed.

Key Words: Innovativeness Dimension, Corporate Entrepreneurship, financial performance, manufacturing firms, product innovativeness, process innovativeness, organizational innovativeness, Kenya

1 Introduction

In recent years, there has been increasing interest in the attributes affecting financial performance of manufacturing firms. The reasons for this are three-fold. First, competitive edge in the market, second, good returns to the shareholders, and finally, financial performance of manufacturing firms has received little research interest, for instance (Zain and Hassan 2007). There is need to identify factors that affect the financial performance of the firms.

Primarily, firm's performance is related to the intentions of the manager (Stenholm 2011; and Cliff 1998). Pro entrepreneurship proponents acknowledge that individual managers have central role in manufacturing firms in that they make the fundamental decision to success or no success in the financial performance of the manufacturing firms (Morris, Kuratko and Covin 2011; and Aktan and Bulut 2008). However, intentions are only one of the prerequisites for successful financial performance in manufacturing firms. Successful financial performance of manufacturing firms requires creativity and innovativeness in the firm. Considerable anecdotal evidence suggests that innovativeness dimension of CE leads to success in financial performance of manufacturing firms. According to Zain and Hassan 2007; Drucker (1985); and Stevenson and Gumbert (1985), large firms such as International Business Machine (IBM), Hewlett Packard and 3M have been able to sustain high levels of financial performance by adopting innovativeness dimension of CE.

Additionally, in order for the manufacturing firms to achieve sustained innovation and long term excellence in the regional and global market they should maintain a culture that supports and encourages performance improvement. This sort of culture can be described as a culture that encourages its employees to be creative and innovative that will enable them to realize and take advantage of opportunities when they arise. Innovativeness is conceptualised within the combinations of new ideas, new products and new processes/ techniques of production in the firm (Morris, Kuratko and Covin 2011; Cakar and Erturk 2010; Schumpeter 1934)

A few researches of CE in enterprises have been conducted in Africa, for example, Nyanjom (2007) researched on how enterprises in Botswana can develop and enhance entrepreneurial innovation and encourage entrepreneurial activity within enterprises. This study failed to address the innovativeness characteristics that affect the financial performance of manufacturing firms. In Kenya, studies conducted have centred on a combination of CE dimensions and how they affect performance of the firms, rather than looking at individual CE dimension such as innovativeness and its effect on financial performance of manufacturing firms. 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. Hence, the studies failed to identify the effect of innovativeness dimension of CE on performance of the large enterprises.

Utilizing conceptual model of EO- performance relationship and financial performance regression, our study will argue that innovativeness dimension of CE has a positive effect on financial performance of manufacturing firms in Kenya. Conceptual model of EO- performance relationship posits that the five dimensions (innovativeness, risk taking, proactiveness, competitive aggressiveness and autonomy) affect financial performance of the firms (Lumpkin and Dess 1996). Our study will establish the effect of innovativeness dimension of CE on the financial performance of manufacturing firms in Kenya. Specifically, we argue; 1) Product innovativeness affects financial performance of manufacturing firms; 2) Process innovativeness affects financial performance of manufacturing firms; and 3) Organizational innovativeness affects the financial performance of manufacturing firms.

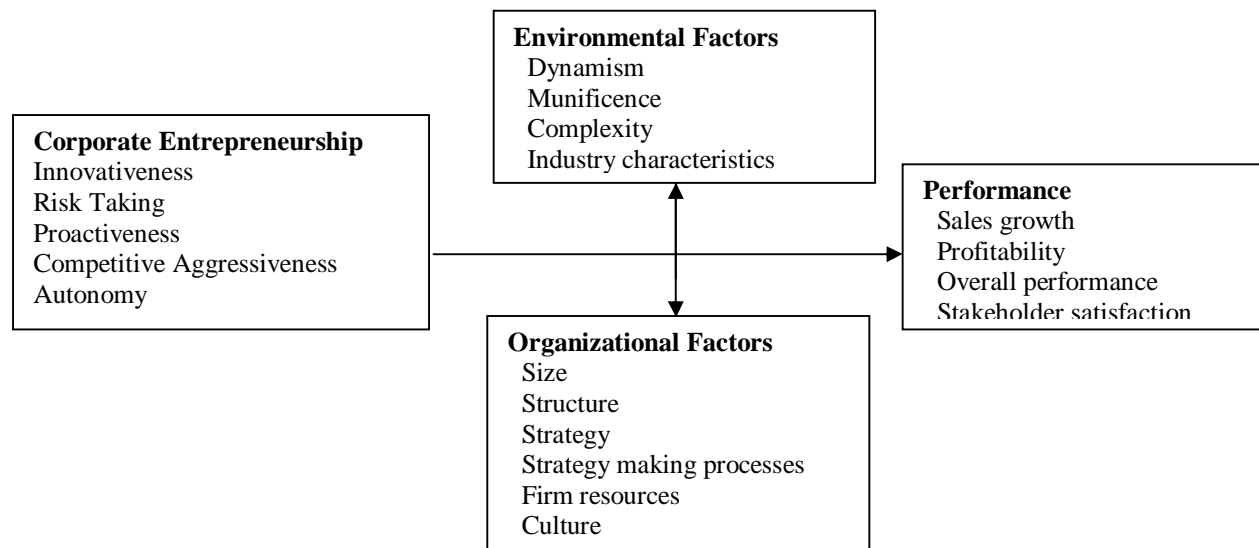
This paper consists of six sections; after this introduction we examine the primary tenets of conceptual model of EO- performance relationship and the relationship. Financial performance and innovativeness dimensions have been discussed. Hypotheses of the study have been developed within the discussion of the literature. The data collection procedure, sample and methodology of the research have been presented within the third section. Analysis and results have been given in the fourth section. Fifthly, discussions and implications are given. Finally, conclusions and recommendations are presented.

2. Conceptual Model of EO- Performance Relationship; Financial Performance and Innovativeness; and Hypotheses

2.1 Conceptual Model of EO- Performance Relationship

There are many theoretical and empirical studies, which examine CE- performance relationships among firms. In context of this study, we adopted the conceptual model of EO- performance relationship by Lumpkin and Dess (1996) (see Figure 1). According to these authors, the model presents an alternative model for CE that shows the EO- performance relationship that involves five CE dimensions (innovativeness, risk taking, proactiveness, competitive aggressiveness and autonomy) moderated by environmental factors (dynamism, munificence, complexity and industry characteristics) and organizational factors (size, structure, strategy, strategy making processes, firm resources and culture) affect performance of the firms (sales growth, profitability, overall performance and stakeholder satisfaction).

In this study, we use the innovativeness dimension of CE that involves product, process and organizational innovativeness, and financial performance that contains profit and sales constructs. Meanwhile, we believe that the innovativeness dimension of CE affect the financial performance of the manufacturing firms (Lumpkin and Dess 1996).

Figure 1: Conceptual Model of the EO-Performance Relationship

Source: Lumpkin, G.T. and Dess, G.G. (1996) Clarifying the Entrepreneurial Orientation constructs and linking it to performance. *Academy of Management Review*. 21(1): 135-172.

2.2 Financial Performance and Innovativeness

2.2.1 Financial Performance

A firm's financial performance and operations are integrally connected. Studies have shown that, the concept of firm's performance is multidimensional in nature (Aktan and Bulut 2008; Wiklund and Shepherd 2005). Within firm performance, the focus has always been on the financial side; hence it is traditionally defined in financial terms. In addition, shareholders, investors and other stakeholders are interested to get information about the firm's performance conditions frequently. Financial performance information (return on equity, return on investment, sales growth and profitability) is the most extremely explicit and valid information among the other performance dimensions (Zhao et al. 2011). On the other hand financial information should also be available particularly for regulatory and supervisory bodies for auditing the certain fiscal issues and taxations. The extent to which this financial information should be disclosed depend upon firms' features, that is, being private or public character of the firm, its size, or the firm's being quoted or unquoted.

Financial performance is the firm's ability to generate new resources from day to day operations over a specific period of time (Peterson and Peterson, 1996). Broadbert and Cullen (2005); Kaplan and Norton (2000) opine that the financial performance measures can be divided into two major forms. The traditional measures which are based on accounting/ financial data (the effect of actions on one year's profit return on equity and return on investment) which reflects a firm's past financial performance and On the market based measures derived from stock market values (Economic Value Added and Market Value Added approaches) which are based on valuation principles. To test the financial performance effects of CE, the performance measurement scale of this research was adapted from the frequently used traditional financial criteria.

Successful entrepreneurial accomplishments will inevitably affect the firm's financial performance in the long run, barely in the short run; there might be no association among innovativeness dimension of CE and firm's financial performance criteria due to project investments and firm's internal resource usages or possible losses (Aktan and Bulut, 2008; Hayton, 2005). Thus, the first signals of successful entrepreneurial accomplishments may be obtained from marketplaces, sales growth and market share. Then, in the long run, these improvements in the competitive position in the marketplace may create higher financial returns as the outcomes of innovativeness dimension of CE. Therefore, more than one criterion, that is, sales and profit were used to reveal the association between innovativeness dimension of CE and financial performance of manufacturing firms.

2.2.2 Innovativeness

Innovation is generally defined as conceptualization of new commodities (or a greatly improved commodities), but also as the successful bringing of new commodities to the market (Cakar and Erturk 2010; Schumpeter 1934).

Innovativeness also connotes process of production which is the implementation of a new or significantly improved production or delivery method; and organizational changes which is the creation or alteration of the structures practices and models, management of staff and improving product design (Trott 2010). Accordingly, the firm's innovation capability is the ability to mobilize the knowledge, possessed by its employees (Kogut and Zander 1996), and combine it to create new knowledge, resulting in product and/ or process innovation. It is recognized as well that competitive advantage can be acquired with a high quality workforce that enables firms to compete on the basis of quality and innovation.

Innovation capability is one of the most important dynamics which enables firms to achieve a high level of competitiveness both in the national and international market. Thus, how to promote and sustain an improved innovation capability should be the key focus area of the top managers of firms (Cakar and Erturk 2010). Drucker (1985) argues that innovation is the heart of entrepreneurship. An organizational wide entrepreneurial spirit to cope with and benefit from rapidly changing market place conditions would be possible only if sustainable innovative undertakings are established. When these organizational initiatives are supported and coordinated within the firm, the outcomes are gained as sustainable competitive advantage through innovation in the form of new products, services or combination of these (Hornsby et al. 2002; Brentani 2001; Quinn 1985; Schumpeter 1934).

2.3 Hypotheses Development

Investigation of the relationship between innovativeness and firm performance was the main objective of this research. Traditional explanation for the positive relationship between firm level innovativeness and firm performance rests on Schumpeter's work (1934). He argued that innovative new products when first introduced to the market face limited direct competition and as a result, allow firms to enjoy relatively high profits. Overtime, these high profits are likely to erode due to limitation and competition but firms that continue introducing innovative new products may be able to achieve high profitability for sustained period (Atalay, Anafarta and Sarvan 2013). Like many scholars, Varis and Littunen (2010) argue that the ultimate reason for firms to engage in innovativeness activities is to improve firm performance and success. This study aimed to fill the gap in the literature by testing this relationship in Kenya's manufacturing firms. Specifically, the following subsections discuss the relationships between types of innovativeness (product, process and organizational) and financial performance. Further, the hypotheses are generated.

2.3.1 Product Innovativeness and financial Performance

Product innovativeness is the introduction of the product that is new or significantly improved with respect to its characteristics or intended uses (Atalay, Anafarta and Sarvan 2013). This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics (for example, replacing inputs with materials with improved characteristics, environmentally friendly plastics and others). Roberts (1999) examined the effects of product innovativeness on sustainable profitability of firms with longitudinal research in the United States pharmaceutical industry. He discovered support for the expected relationship between high product innovation propensity and sustained superior profitability. Thus, new or improved products make the firm to have high sales and hence profits. Consistent with this logic, we hypothesize that:

H_{o1}: Product innovativeness has a positive effect on the financial performance of firm

2.3.2 Process Innovativeness and Financial Performance

Process innovation refers to implementation of a new or significantly improved production or delivery method (Trott 2010). This includes significant changes in techniques, equipment and/ or software (for example, installation of new or improved manufacturing technology such as automation equipment or real- time sensors that can adjust processes, computer aided product development). In their studies of Turkish manufacturing firms in different industries, Gunday et al. (2011) discovered a positive effect between process innovativeness and financial performance of the firms.

Consequently, new production process enable the firm take little time to produce large quantity of products which can be sold which in turn lead to high profits. Based on this discussion, we hypothesize that:

H_{o2}: Process innovativeness has a positive effect on the financial performance of firm

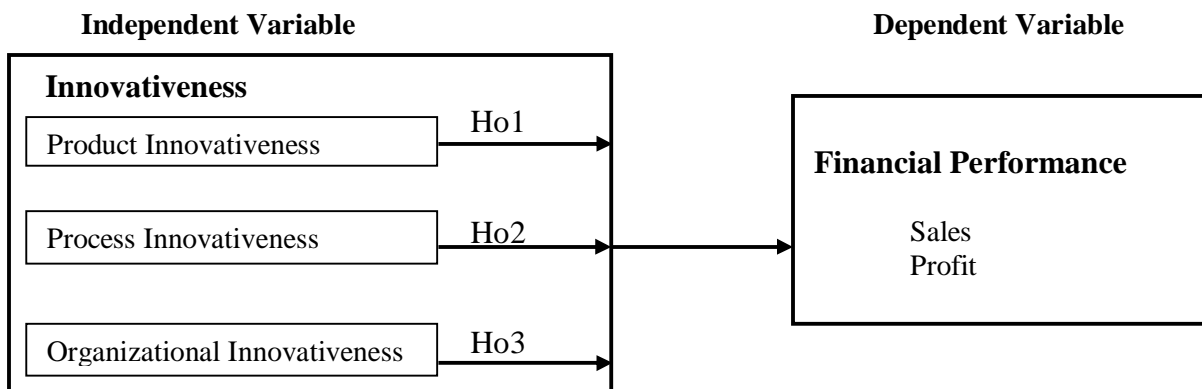
2.3.3 Organizational Innovativeness and Financial Performance

Organizational innovation is the implementation of a new organizational method in the firm’s business practices, firm organization or external relations (Trott 2010). Organizational innovations can be intended to increase a firm’s performance by reducing administrative costs or transaction costs, improving workplace satisfaction costs, improving workplace satisfaction (and thus labour productivity) gaining access to non trade able assets (such as non codified external knowledge) or reducing costs of supplies (for example, first- time introduction of management systems for general production or supply operations, such as supply chain management, business re engineering, lean production and quality management system). Many studies have discovered a positive association between organizational innovativeness and financial performance (see Atayal, Anafarta and Sarvan). We therefore put forward our final hypothesis:

H_{o3}: Organizational innovativeness has a positive effect on the financial performance of firm

Figure 2 displays the hypothesized interaction of innovativeness dimension of CE and financial performance.

Figure 2: Hypothesized Model of Interaction of Innovativeness Dimension of CE and Financial Performance



3 Data and Methods

3.1 Data Collecting Procedure and Sample

The data used in this study was gathered from 200 manufacturing firms based in Nairobi County identified by sampling technique of simple random sampling where each respondent has equal chance of being selected. The choice of manufacturing sector is based on two premises; first, it is the leading economic sector in Nairobi, Kenya and its entrepreneurial behaviour is of great concern. The study adopted ex post facto design which investigates possible cause and effect relationships by observing an existing condition or state of affairs and looking back in time for valid causal factors (Kerlinger and Lee 2000). Primary data, including innovativeness dimensions and financial performance, was gathered using a questionnaire. A total of 200 questionnaires were administered to 200 top managers of manufacturing firms who were considered to be the best able to understand the innovativeness dimension of CE under consideration in the study for 20 days. 186 respondents replied, which is 93 percent of response rate. Such a response is considered statistically sufficient to give a reliable estimation of the population parameters (Zain and Hassan 2007)

The biographic data have shown that 32% came from food and beverages, nearly 80% of the firms have been in business for more than 10 years, 38.7% of firms market their products regionally, 71% of the top managers were males, 46.8% of managers were between 41 to 50 years old and 76.9% of the managers had attained degree level of education.

3.2 Measures of Constructs

Constructs were measured with dimensions adapted from the CE proponents such as Lumpkin and Dess (2001); Barringer and Bluedorn (1999); Covin and Slevin (1989); Miller (1983); Khandwalla (1987) as well as those generated from the literature of CE. All items were measured on a five point Likert- type scale where 1 = strongly disagree and 5 = strongly agree. Mean scales scores were calculated for all measures. We used the Cronbach’s alpha to estimate reliability for scales. A total of 21 items were used in which 9 items measured innovativeness and 12 items measured financial performance.

The financial performance scales were created from the existing literature and chosen among the most frequently used financial criteria, which are return on sales and profits. Financial performance of firms within the presiding two years was measured using five point scales which was anchored at much worse than previous year (= 1) and much better than previous year (= 5). The financial performance of firms was computed as follows:

$$\text{Sales} = (\text{This year's sales} - \text{Last year's sales}) / \text{Last year's sales}$$

$$\text{Profit} = (\text{This year's profit} - \text{Last year's profit}) / \text{Last year's profit.}$$

4 Analysis and Results

4.1 Reliability Tests, Factor Analysis and Correlations

The scales were submitted to factor analysis in which out of 21 items, 15 items (5 for innovativeness, 9 for sales and 2 for profit) loaded to each other, and showed strong validity for such a measurement model, with the Goodness of Fit Index (GFI) = .94, Confirmatory Factor Index (CFI) = .96; Normed Fit Index (NFI) = .95). Factor loadings are depicted in Table 1 below.

Table 1: Factor Loadings for EO Dimensions and Financial Performance Constructs

Items	Factor Loadings
Innovativeness	
Developing new types of product	.537
Frequently trial of new techniques of manufacturing products	.514
Firm is creative in the methods of operation to reduce the time of production	.567
Investing in developing appropriate technology to produce high quality goods	.715
Carrying out product improvement always	.641
Financial Performance	
Sales	
Proactiveness tendency of being ahead of competitors in introducing products has led to increase in sales	.798
Competitive aggressiveness such as competitive marketing strategies has led to increase in sales	.639
Innovative techniques of production has led to high quality and quantity of products that increases sales	.634
Business environments (dynamic, heterogeneity and hostile) make the firm to identify strategies to increase sales	.681
Innovative methods of operation that reduces the time of production has led to the decrease in costs thereby realising profits	.729
Competitive aggressiveness (e.g. pricing and distributive channels) of our products has led to the growth of profits	.717
Risk taking inform of introduction of new ventures by our firm improves production thereby resulting to profit increase	.694
Business environments (dynamic, heterogeneity and hostile) make the firm to identify strategies to improve profits	.709
Profit	
Decision to allow autonomous unit of production has led to a lot of sales being made	.844
Autonomous units created by firms produces more goods that led to high profits	.750

Significant at *** $p < .001$

The findings of factor analyses also give evidence for convergent validity of constructs regarding to significantly ($p < .01$) loadings of all items to respective latent factors. The principle component analysis (PCA) was utilized to test the discriminant validity. PCA showed that all constructs have been extracted to eight respected factors of factor analysis with the cut point of Eigen value 1. To test unidimensionality of scales, each construct were submitted to PCA individually and resulted with one factor. These findings gave evidence for the validity of the scales. Cronbach's alpha test was conducted for each of the construct to test for the reliability analyses. Table 2 reports the results of reliability test in which all the alpha coefficients are larger than expected value of .700 (Aktan and Bulut 2008).

Furthermore, the means and standard deviations of each construct were computed and discovered sufficient variance for further analyses. The findings demonstrated that the factor structure was valid and reliable to test the hypotheses of the research. Before testing hypotheses of the study, correlation analysis was conducted between types of innovativeness and financial performance constructs. The findings of descriptive statistics, correlations and reliability analyses are presented in Table 2 below.

Table 2: Correlations, Descriptive Statistics and Alpha Coefficients of Innovativeness and Financial Performance

Variable	1	2	3	4
1. Product Innovativeness	1.000			
2. Process Innovativeness	0.511***	1.000		
3. Organizational Innovativeness	0.250***	0.275***		
4. Financial Performance	0.252***	0.159*	0.222**	1.000
Observation (N)	186			
Mean	4.1398	4.1935	4.2231	3.9059
Standard Deviation	0.5967	0.5929	0.4959	0.7411
Alpha coefficient	0.6200	0.6000	0.6770	0.8660

Note: Statistical significance * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

4.2 Hypotheses Testing

Correlation analyses have given some evidence of individual effects of constructs of innovativeness on financial performance as simple linear regression analyses. However, to test the multiple effects of innovativeness dimension of CE on financial performance a multiple regression analysis was conducted (Cohen et al. 2003). The regression model used for the analysis is as follows:

$$F_{pj} = \beta_0 + \beta_1 P + \beta_2 M + \beta_3 O + \epsilon_i$$

Where dependent variable F_{pj} is financial performance of manufacturing firms in region j which is Kenya and independent variables firms are innovativeness and innovativeness types include P - Product innovativeness, M - Process innovativeness, and O - Organizational innovativeness. The intercept " β_0 " was the level firm's financial performance that was attributed to activities other than firm's innovativeness, β_1 , β_2 , and β_3 were coefficients or slopes of the independent variables. ϵ_i - Regression residual or error term and subscript i indexes a particular observation.

Table 3 in presents the findings of multiple regression analysis. The findings of the regression between financial performance and innovativeness constructs yielded the coefficient of $F(3,183) = 12.141$ ($p < .001$) and the regression coefficient of $R^2 = .167$ ($p < .001$). These results denoted that the model was statistically significant and explained 16.7 percent of variance in financial performance. This indicates that the effect of innovativeness on financial performance is significant ($p < .001$). Furthermore, the regression coefficients for two out of three innovativeness constructs were statistically significant with organizational innovativeness recording a highest Beta value ($\beta = .268$, $p < .001$), and product process ($\beta = .156$, $p < .050$). These coefficients are positively associated with financial performance.

The results suggest that the increase in management efforts results to the following; first, creativity in methods of operation to reduce time of production and investing in developing appropriate technology to produce high quality products; and lastly, more effort is put in developing new types of products and improving the those that already exist to enable higher sales.

However, the results of the regression coefficients for process innovativeness ($\beta = .118$, $p > .050$) despite being positively associated with financial performance, was insignificant. This finding may suggest that firms are not responsive to process innovativeness through disregarding frequent trials of new techniques of manufacturing goods.

Thus the findings provide strong support for H_{o1} : Product innovativeness has a positive effect on financial performance of firm; and H_{o3} : Organizational innovativeness has a positive effect on financial performance of the firm. However, H_{o2} : Process innovativeness has a positive effect on financial performance of the firm is rejected.

Table 3: Effect of Innovativeness Dimension of CE on Financial Performance of Firms

Variable	β	t- Test	p- Value	PCC	VIF
Constant	2.240	7.011	0.000		
Product Innovativeness	0.156*	1.963	0.050	0.144	1.378
Process Innovativeness	0.118	1.469	0.144	0.108	1.398
Organizational Innovativeness	0.268***	3.770	0.000	0.255	1.101
Observation (N)		186			
R Square		0.167***	0.000		
Adj. R Square		0.153***	0.000		
F- Value (3, 183)		12.141***	0.000		

Note: Statistical significance * $p < .05$, ** $p < 0.01$, *** $p < 0.001$

5 Discussions and Implication

The study can generate a few theoretical implications. Firstly, these results support the theoretical and empirical research findings on innovativeness dimension of CE and performance of firms by Atalay, Anafarta and Sarvan (2013); and Stenholm (2011). The point of distinction is that the innovativeness constructs in this study denotes lower explanatory power (16.7 percent) compared to theirs, which indicated regression coefficients to be above 20 percent (Atalay, Anafarta and Sarvan 2013; and Stenholm 2011). These results disagree with those of Atalay, Anafarta and Sarvan (2013) of innovativeness and performance of firms in Turkey. In their study, they discovered that all the constructs of innovativeness (product, process, organizational and marketing) had positive and significant relationship with the financial performance of the firms. The results of this study extended the literature further by showing that the manufacturing firms in Kenya could benefit from performance when being innovative. Finally, this study broadens the factors that affect financial performance of the firm in an attempt to contribute and to organise the large body of academic literature on innovativeness constructs. The principal challenge to proponents of entrepreneurship research is to identify the innovative processes that lead to various forms of innovativeness, and then theoretically predict and empirically verify the forms of this phenomenon that produce the best results for firms in various business and industry contexts.

A number of practical or managerial implications could also be derived from this study. Firstly, it appeared that innovativeness is a vital element for firm's financial performance. Therefore, managers of enterprises should seriously consider innovativeness as an effective tool for enhancing financial performance in their firms. Lastly, the growing significance of CE in financial performance of firms in current world, demands the managers to identify innovativeness types of their workers so that they can differentiate those who are innovatively inclined from those who are not.

6 Conclusions and Recommendation

This study utilized the conceptual model of EO- performance relationship to establish the effect of innovativeness dimension of CE on financial performance of manufacturing firms.

Data collected from 186 firms discovered that out of three constructs of innovativeness (product, process and organizational), two constructs (product and organizational innovativeness) had a positive and significant effect on financial performance of the firms. From these findings, it is evident that innovativeness dimension of CE significantly affect financial performance of manufacturing firms in Kenya. It is therefore recommended that manufacturing firms in Kenya should embrace innovativeness dimension of CE to enjoy good financial performance.

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