



ENTREPRENEURIAL CULTURE AND GROWTH OF MICRO AND SMALL ENTERPRISES; A CASE OF NAIROBI CITY COUNTY, KENYA

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ABSTRACT

The purpose of the research was to establish the relationship of entrepreneurial culture (opportunity focus and innovation) and the growth of MSEs. The appropriate design employed for the study was descriptive research design. The target study population was Nairobi City county-based entrepreneurs. The population sample consisted of 300 entrepreneurs from Kawangware market who had registered businesses with Nairobi county offices. The Micro and Small Enterprises were drawn from several sectors including trade, manufacturing, transport and services sectors. Systematic and Stratified sampling strategies was appropriate for selection of 60 respondents as a sample size for the study. Data collection was done by administration of closed and open-ended questionnaires. The collected data was analyzed using descriptive statistics i.e. the mean, percentage, and frequencies. Statistical Package for Social Sciences was used to aid in the analysis. Findings of the study indicated that MSEs in Nairobi City County had adopted several entrepreneurial cultures that enhanced MSE growth. The most prevalent cultures that enhanced MSE growth were opportunity focus where entrepreneurs whose business had grown had identified opportunities, strategically laid down plans and followed up to ensure implementation. Innovation both in the product and processes of doing business contributed to MSE growth. Recommendations were made on the need for entrepreneurs and potential entrepreneurs to embrace a positive entrepreneurial culture of being opportunity-focused and innovative in their daily business endeavors in pursuit of growth.

Key Words: *Opportunity-Focus, Innovation, MSEs*

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INTRODUCTION

MSE growth refers to the gradual increase in size of business entities in terms of size, capital, and labour (Crosby, 1990). It is a process whereby a business entity starts small and increases its size with reference to the capital, the sales volumes, the number of employees and establishing new branches. It was observed that MSEs must grow for no other reason other than to accommodate the increased expenses that develop over the years. Globally, MSEs are considered the engine of economic growth in LDCs. In first and second world countries, MSEs play an important role in employment creation, they also spur innovations, and create modern products. These roles cannot be ignored as they contribute to economic vitality and general growth of a nation. Considering the situation of entrepreneurs in most LCDs, there is an entrepreneurial culture, (the attitudes, norms, characteristics, and behaviour that entrepreneurs possess, including all the knowledge and value shared by entrepreneurs) that must be embraced for the realization of the MSE growth.

According to Sarasvathy and Venkataraman (2001), opportunity focus consists of directing more efforts to new ideas, innovations, aspirations, and objective goals. In other words, opportunity focus consists a set of focus on ideas, beliefs and actions that enables the creation of future goods and services hence growth of MSEs in terms of opening of more branches, increase in number of employees, increase in turn over and increase in capital. MSEs must have a clear focus on what the vision is and have well aligned strategies to be meet the MSE objectives.

A successful MSE is opportunity-focused to produce growth results. Entrepreneurs do not cause change, as claimed by the Schumpeterian or Austrian school, but exploit the opportunities that change creates (in technology, consumer preferences, enabling environment) (Drucker, 1985). Drucker further says that entrepreneurs will always search for change, responds to the change, and exploits it as an opportunity. Stevenson (1990) extends

Drucker's opportunity focus-based construct to include resourcefulness. An MSE will have a high spirit of performance if it is consistently directed toward opportunity focus rather than toward problems. An MSE will have the thrill of excitement, a sense of challenge and the satisfaction of achievement if its energies are put where the results are, and that means the opportunities, which in the long run result to MSE growth. In this study opportunity focus will be evaluated by the determination of the number of set objectives both short and long term which will be successfully implemented, and the results are evident.

Innovation is more about finding new things, ideas, concepts, developments, improvements, and ways to do things and to obtain strategic advantages (Murad, 2011). Advancements in innovation has made entrepreneurs acquire more skills in improving their businesses and helping the individual entrepreneurs have more advanced business skills in starting and running businesses successfully. Innovation management practices are fundamental in fostering innovation aimed at boosting and ensuring business survival and growth through development of an innovative culture within MSEs.

Innovation management is key to attaining a competitive advantage by MSEs leading to development of new products, services, and systems. Accordingly, innovation is a specific tool of entrepreneurs, how entrepreneurs exploit change as an opportunity for different businesses or service. Innovation may be the integration of human knowledge, skills, and information whereby through innovation management knowledge is converted into products and services (Paul, 2008). According to Cooper (2005), an MSE must innovate or die which means that survival and growth of MSEs is fully dependent on the level of innovation an entrepreneur is able to adopt. Innovation is determined by looking at the changes that has occurred in products in terms of packaging, branding advertisements and general

improvements in handling customers in terms of efficiency and effectiveness

The annual Economic Baseline Survey refers to MSE sector as informal sector. The Economic Baseline survey of 2016 in Kenya indicated that there were more than 2 million Micro and Small enterprises employing more than 5 million people. Almost 19% of the MSE's are found in Nairobi county and Mombasa. Based on the Nairobi County business records, there are many MSE's in Nairobi market both in the manufacturing and service industry majority being in the retail enterprises. They buy goods from wholesalers from the CBD, Garissa Lodge in East Leigh and repackage and sell on the local market in small affordable quantities that the locals who majorly come from the slums in Nairobi can afford. Evidence from the size of stock and number of employees from most businesses in Nairobi market shows that most MSEs have either shown little or stranded growth. Some have remained in the same state for several years which may not be helpful in the realization of the Vision 2030, especially the economic pillar which seeks to eradicate poverty and empowering citizens economically. This again is the motivation behind carrying out this study to establish if indeed the entrepreneurs adapted a certain culture, could help the MSE's grow. It was generalized that for the realization of MSE growth in the area, both horizontal and vertical growth, there is need for the existing and upcoming entrepreneurs to embrace entrepreneurial culture of opportunity focus, innovation, networking and risk taking.

Statement of the Problem

MSEs in Nairobi County have operated in a relatively unstable business environment. MSEs are facing aggressive competition from China influence calling for the need of current and upcoming entrepreneurs to constantly adapt their dealings in order to survive in the market. This calls for the MSEs that desire growth to respond strategically to the ever-changing business dynamic environments for survival and growth. Growth of MSE is very fundamental for economic development across all

the economies of the world. Through adoption of entrepreneurial culture, MSEs can develop a common culture for continuous innovation and new product development that enables them to have efficiency and competitive advantage in the markets resulting to MSE growth. Several studies carried out in Kenya have indicated that growth of MSEs is a strong contributor to the national Gross Domestic Product (GDP) (McCormick & Dorothy 1988). In the past, most studies on MSEs establishment and growth have focused on difficulties in accessing credit facilities and inflation in the country as the main factors hindering growth and development of MSEs in Kenya. The promise of more than a million jobs by sitting governments can be realised if the MSEs grew. The governments through studies identified the MSE growth as the one capable of providing these jobs. Why then was the MSE sector not providing these jobs was a question of concern. And were these factors the only ones that inhibited this sector from growing? (McCormick & Dorothy 1988). MSEs that started long time ago, say 5-7 years have remained in the same state, showing stranded or no growth at all (National Baseline Survey, 2015). Basing on the study variables, it was however not clear how entrepreneurial culture, opportunity focus and innovation affect growth of MSE in Nairobi County markets. This study sought to contribute to this area and thus looked at the effects of entrepreneurial culture on MSE's growth in Nairobi City County. This was the research gap that this study sought to fill by studying entrepreneurial culture and growth of Micro and Small enterprises, a case of Nairobi City County.

Objectives of the Study

The main objective of the study was to establish how entrepreneurial culture influences growth of Micro and Small Enterprises in Nairobi City County. The study was guided by the following specific objectives;

- To establish influence of opportunity-focus on the growth of MSEs in Nairobi County

- To establish how innovation influences the growth of MSEs in Nairobi County

LITERATURE REVIEW

Theoretical Review

The MSE growth in the modern business environment are stagnant and are highly depend on the ability to identify potential threats and weaknesses and come up with appropriate strategies of dealing with the stagnated growth situations. MSEs must respond to the market expectations to realise the MSE growth. MSEs must be responsive to both external and internal demands and expectations in order to survive and grow (Wade and Hulland,2004) According to Ivan Turok (1991), in his book, the of EU Regional Policy contrasting perspectives on the structural funds coherence, MSE's growth has received a considerable attention from scholars and policy-makers around the world. The study shows a considerable interest and concerns in the field of MSE formation, operation and more so in the identification of features that distinguish businesses that grow and them that do not grow. This can be important if more selective small businesses entrepreneurial culture can be adopted. Identifying distinctive entrepreneurial culture attitudes of MSEs that are more and less successful may also provide insights into the factors influencing MSE growth and hence improve understanding of the growth process as illustrated by Gibb and Davies (1991)

Researchers and academicians, such as Lester et al, (2003), Churchill & Lewis, (1983) studied life cycle stages and used various parameters to determine specific stages of growth. Some of the determinants of growth stages employed included enterprise age, size, rate of growth, enterprise structure including inherent key management issues and problems. This did not clearly bring out the entrepreneurial culture which could be universally adopted by MSEs and other prospective entrepreneurs.

The Stochastic models of firm growth

The Stochastic model of firm growth was developed by O'Farrell and Hitchens (2006) basing his ideas in the field of economics and it suggest that there are many attributes which affects MSE growth. It can be concluded therefore that there is no dominant theory on the same which is exhaustive in nature on this subject. In this respect then, it can be contextualized that, emphasis on Gibrat's (1931) law of proportionate effect is important. The law proposes to a larger extend that business growth rates are independent of enterprise size. O'Farrell & Hitchens (1988) jointly cite evidence which supports and reinforces Gibrat's law for manufacturing MSEs. The two writers consequently pointed out to the empirical support for the proposition that the variability of growth rate of small businesses decreases with increase in enterprise size. Thus, MSEs must think through attributes that will necessitate the business compete effectively in the market with its competitors and ensure growth is attained. The purpose of entrepreneurial culture is to facilitate MSEs with requisite attributes that will help in the business survival and growth into the market. This research was anchored on the stochastic growth model.

Empirical Review

Entrepreneurial culture if well understood and conceptualized by MSEs can be beneficial. This culture can be part of the many factors that enhances entrepreneurial undertakings and activities in the MSEs. The entrepreneurial culture is part of the invisible entrepreneurial aspects which influences everything that people do in running MSEs. When new ideas, experiments and innovation are encouraged, it creates an entrepreneurial culture with attributes that support entrepreneurial behaviour, based on the study by (Brown et al, 2001, Covin & Slevin, 1991 and Zahra, 2000). MSE activities can be viewed as "processes by which individuals either on their own or within organizations pursue opportunities" as suggested by (Stevenson and Jarillo, 1990). If the MSE owners and firms' managers were to adopt entrepreneurial

behaviour when developing their business strategies, their businesses and firms would be projecting a much brighter future as current perceptions may suggest (Lee and Peterson, 2000).

One of the early studies on entrepreneurship by Peter Drucker brings forth an opportunity-based study where he contends with the idea that “entrepreneurs excel at seeing and taking advantage of possibilities created by social, technological and cultural changes”. Examples can be seen where a business that caters to senior citizens might view a sudden influx of younger residents to a neighbourhood as a potential death stroke, but to an entrepreneur, this may be viewed as a chance to open a new club, an entrepreneurial opportunity. Basing on Praag (1995) argument, “opportunity focus is the possibility to become self-employed by pursuing a prescribed goal. Willingness to pursue an opportunity is relatively high in self-employed entrepreneurs compared to those in employment. Most people who are intrinsically motivated pursue opportunities in business to satisfy a market need.

Willingness to pursue an opportunity is inherently affected by the anticipated market incentives that are available for existing and promising entrepreneurs. In a study of entrepreneurship carried out in many countries, Davidson and Wiklund (1995) suggest that “regional variations in the levels of entrepreneurship are influenced by the cultural values of being opportunity focused. Thus, it can be deduced that for MSE’s to thrive and grow, the managers must be opportunity focused”. Since there is no market for opportunities, the entrepreneur must exploit whatever opportunity is available, meaning that he or she must develop his or her capabilities to obtain resources, as well as organize and exploit opportunities. Basing on the above empirical evidence, this study suggests that opportunity focused entrepreneurs are most likely

to grow their MSEs to larger businesses which may eventually grow to big business empires of the world.

Innovation has little to do with the technology in use, it’s an entrepreneurship state of mind, a way in which an MSE perceives itself and its environment surroundings and how it positions itself to overcome the competition in the market. In case one is entering into a market that is already flooded then, one needs to ask fundamental questions such as, what additional value was you be giving consumers? If you are offering the same product the same way at the same price, why would consumers purchase your products and not from your competitors? Unfortunately, many MSE’s enter business without having this in mind and consequently fail to live to the growth expectation.

Two studies by Schumpeter and Marshall have described an entrepreneur as an “innovator” but failed to link the process of innovation and entrepreneurship in situations whereby new products, processes and services has been introduced and profit is not realized. These augments lead to another school of thought where gurus of innovation argue that an “experiment may fail but one must keep on trying until success is realized”. Schumpeter’s approach also ignores the existence of entrepreneurial culture and biological influence to start ups. Innovation in MSEs is of fundamental importance as the world keeps on changing every now and then. For a thriving business undertaking, it is difficult to divorce innovation from MSE growth. MSE is about being innovative, making extraordinary things happen with ordinary things. In business application, innovation is creating something that is new or significantly improved, done by an MSE to create added value either directly for the enterprise or indirectly for its customers, Business Council of Australia (1993).

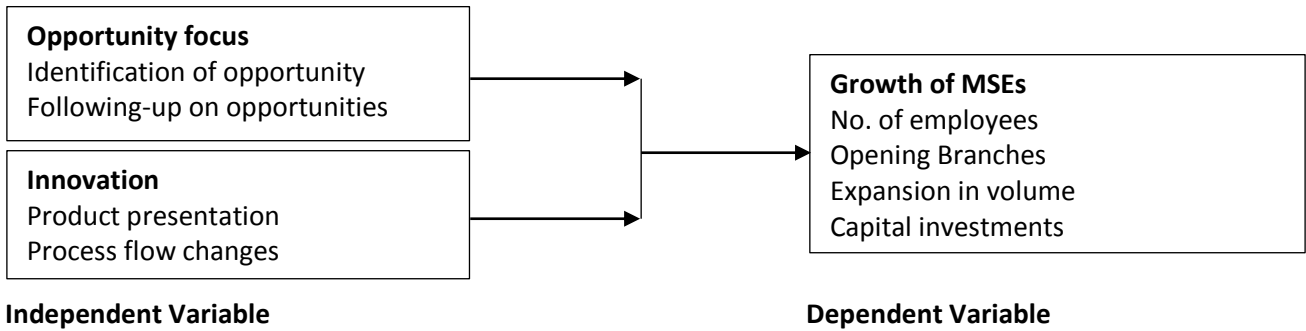


Figure 1: The Conceptual Framework

Source: The Author 2018

METHODOLOGY

Descriptive research design was adopted and used in this study. The research target population was 60 established MSEs from different business categories with more than ten years in the market with a turnover of between five thousand and five million shillings. Systematic and Stratified sampling strategies was used to select a sample of 60 respondents for this study. The researcher collected data by administering both open and closed-ended questionnaires to the respondents in the target population. Data collected was analysed using descriptive statistics, includes the mean, the percentage, and the frequencies. Pearson and Spearman correlations and inferential statistics

were calculated for all variables used in the study. Statistical Package for Social Sciences (SPSS) was used to derive the desired output. The independent variables comprised of opportunity focus (OF) and Innovation (IN). The depended variable for the study was MSE Growth (MSEG).

FINDINGS

Opportunity Focus and the growth of MSE

The respondents were asked to indicate the opportunity focus practices adopted by the MSEs and to what extent those practices were utilised using a five-point Likert scale (1-5. 1-Strongly disagree, 2-Disagree, 3-Uncertain, 4-Agree, 5-Strongly agree)

Table 1: Opportunity focus practices

Opportunity focus practices	Score (%)					Mean	Standard deviation
	1	2	3	4	5		
The MSE has well-documented vision and mission to which it subscribes to	12.5	6.22	6.78	25	50	3.81	1.36
The MSE is inspired by the desire to offer solutions in the market	18.7	6.3	37.5	18.5	19	3.13	1.6
The MSE is driven by the desire to provide services in emerging markets	25.0	0	6.3	0	62.7	3.81	1.76
The focus for the establishment of the MSE was to make profits	0	0	6.3	0	93.7	4.86	0.5
The motivating factor for the business is opening more branches and employing many people	6.3	25.0	0	62.7	100	3.13	1.76

NOTE: The aggregate mean is 3.78 and the aggregate SD is 1.396

From table 1 above, the respondents said that opportunity focus practices were one of the great bases for the MSE growth (mean 3.8102: SD 1.36).

The respondents said that MSE had a well-documented vision and mission which it subscribed to (mean 3.8101; SD 1.26). The respondents further

said that MSE was inspired by the desire to offer solutions to the markets (mean 3.130: SD 1.6). The focus for the establishment of the MSE was to make profits according to the respondents (mean 4.875: SD 0.5). Finally, the motivating factor for the business is opening of more branches and employing many people. (mean 3.13: SD 1.76). This means that all the MSEs in this study had a culture of opportunity focus in the MSE operation.

The MSEs had well documented vision and mission to which they subscribed to. MSEs were inspired by the desire to offer solutions in the market which

was driven by the desire to provide goods and services in the emerging markets. The focus for the establishment of the MSE was to make profits and expand the businesses by opening many branches and employing a large workforce.

Innovation and the growth of MSE

The respondents were asked to indicate the innovation activities adopted by the MSEs and to what extent those activities were depicted and utilised using a five-point Likert scale (1-5. 1-Strongly disagree, 2-Disagree, 3-Uncertain, 4-Agree, 5-Strongly agree).

Table 2: Innovation practices

Opportunity focus practices	Score (%)					Mean	Standard deviation
	1	2	3	4	5		
The MSE has transformed the product such that the current product is not as the initial	0	0	12.5	12.5	75	4.63	0.72
The process of doing business has transformed much compared to when we started. Its more complicated than before	6.26	18.75	6.25	43.75	25	3.63	1.23
The MSE has changed with the changes in the Technology which has affected the way business is conducted in modern society	6.25	0	0	25	68.75	4.50	1.03
New technology was part of the driving force that led to the growth of the business	0	0	12.5	0	87.5	4.75	0.68
Innovative workforce employed by the MSE is what has led to the growth (opening of a new branch)	0	12.5	12.5	68.75	6.25	3.69	0.79

NOTE: The aggregate mean is 4.24 and the aggregate SD is 0.89

From Table 2, the respondents said that the MSE had transformed the product such that the current product was not as the initial (mean 4.63: SD 0.72). 43.75% of the respondents said that the process of doing business had transformed much compared to when we started. Its more complicated than before (mean 3.62: SD 1.23). Similarly, the respondents said that the MSE has changed with the changes in the technology which has affected the way business is conducted in modern society (mean 4.5: SD 1.03). On existence of technology strategy within the organization, 87.5% of the respondents said that it was adopted to a very great extent (mean 4.75: SD 0.68). Finally, 68.75% of the respondents said that Innovative workforce employed by the MSE is what has led to the growth (opening of a new branch

(mean 3.69: SD 0.79). It can be seen from this results that innovation is key in the growth of MSE, without which much cannot be realized other than stunted growth.

The MSEs had transformed the products such that the current products are not as the initial ones. There was a transformation in the process of doing business as compared to when the business was initiated. Technological changes greatly affected the way business is done. This success was attributed to the innovative workforce that MSEs are employing in their businesses

MSE performance and the growth of MSE

The respondents were asked to indicate the performance indicators depicted by the MSEs and

how those indicators are affecting the MSE using a five-point Likert scale (1-5. 1-Strongly disagree, 2-

Disagree, 3-Uncertain, 4-Agree, 5-Strongly agree)

Table 3: MSE Performance

MSE Performance practices	Score (%)					Mean	Standard deviation
	1	2	3	4	5		
The starting of the business was difficult, but increase has been realised in terms of capital size.	0.3	3.0	90	0.7	5.0	4.63	0.72
The process of doing business is having the mind that you will either make profits and employ many people or you may fail if you don't work hard.	0	0	36.0	34.0	30	3.63	1.26
The labour force of this business has increased greatly, and it has more employees than the at the time we were starting	40.5	39.5	10	10	0	4.5	1.03
Plans to open more branches are on the way and the funds required for the same are already been secured.	80	2.5	1.5	16	0	4.75	0.68
Stock levels of the business have increased, and the suppliers have trusted us to an extend that they offer us supply is on credit facilities	0	0	0	0	100	3.68	0.79

NOTE: The aggregate mean is 4.238 and the aggregate SD is 0.896

Table 3 above showed that starting of the business was difficult, but increase had been realised in terms of capital size (mean 4.63: SD 0.72), The process of doing business was having the mind that you would either make profits and employ many people or you may fail if you don't work hard. (mean 3.63:SD 1.26), The labour force of this business had increased greatly, and it had more employees than at the time they were starting (mean 4.5): SD 1.03, Plans to open more branches were on the way and the funds required for the same were already been secured (mean 4.75: SD 0.68) Stock levels of the business had increased, and the suppliers had trusted them to an extend that they offered them supply's on credit facilities (mean 3.8: SD 0.78). MSEs that wanted to sustain their competitive position must develop and deploy their performance.

The starting of the MSE was difficult but increase has been realized in terms of capital size. The process of doing business having the mind that one would make profits and employ many people was found to be a motivating factor in the running of the business as it led to people working hard. The labor force of many MSEs was found to have

increased leading to the business thinking and having plans of opening many branches. The stock levels of MSEs had increased leading to them having trusted suppliers who could even offer credit facilities.

CONCLUSION AND RECOMMENDATIONS

From the study, the MSE sector in Nairobi City County was a mature sector which had mature employees who are mostly sole proprietors. The nature of the business the MSE practice was majorly retailing. They bought goods from manufactures, repackage, rebrand and sell in small quantities in the market. The MSEs in Nairobi City County had adopted several entrepreneurial cultures that enhance MSE growth. The most prevalent cultures that enhances MSE growth are opportunity focus where entrepreneurs whose business had grown had identified opportunities, strategically laid down plans and followed up to ensure implementation. Innovation both in the product and processes of doing business had contributed to MSE growth.

MSEs that had embraced and practiced the entrepreneurial culture of opportunity focus and

innovation stood a great chance of growth in terms of opening new branches, venturing into new businesses, and increasing their capital investments. Recommendations were made along the following entrepreneurial culture.

- MSEs and those aspiring to be successful entrepreneurs should embrace and use entrepreneurial cultures for their businesses to be competitive in the market and be able to realize MSE growth.

- MSEs should be abreast with the current innovation for relevance in the market and MSE growth strategies.

Suggestions for further Research

The study focused on the relationship between only a few entrepreneurial cultures of opportunity focus, innovation, networking, and risk taking. There is much that can be studied on entrepreneurial culture including how education affects the MSE growth.

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