

LEVEL OF POVERTY AMONG THE MICRO ENTERPRISE OWNERS IN HOMA-BAY SUB COUNTY, KENYA.

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Abstract

The level of poverty in Homa-Bay County stands at 77.9% against 52% in Kenya. This study sought to establish the level of poverty among the Micro Enterprise Owners in Homa-Bay Sub County, Kenya. The study was guided by resource based view of the firm and equity theories. The study adopted survey research design. The population of the study comprised 1200 MEOs in the study area, Homa-Bay Sub County. A sample size of 240 MEOs was arrived at through stratified random sampling. Questionnaires were used to collect the primary data while secondary data were obtained from the records of the Kenya National Bureau of Statistics. The reliability coefficient of the questionnaires using Cronbach's Alpha was 0.6. Data was analysed using descriptive statistics namely means and standard deviations and presented in tables and figures. Findings revealed that both income and consumption which were the indicators of poverty had a low mean ($\mu = 2.3$) and SD of 0.47 and 0.50 respectively implying that poverty level is high among the MEOs in Homa-Bay Sub county. The study recommends that the MEOs should learn to save, use trade credit facilities wisely and plough back their ME profits to reduce level of poverty among them. The findings will be used by policy makers, academicians, micro-credit practitioners, donors and MEOs across the globe.

Key words: Poverty, Micro-Enterprise, Entrepreneurship, Micro Enterprise Owners, Micro finance.

Introduction

Micro Enterprises (MEs) have been accepted worldwide as the engine of economic growth and for promoting equitable development and poverty alleviation among the Micro Enterprise Owners (Kozan, Oksoy & Ozsoy, 2006). The MEs constitute over 90% of total enterprises in most economies of the world and are credited with generating the highest rates of employment growth. They also account for a major share of industrial production and exports hence they contribute significantly to poverty alleviation among the MEOs (Zimmerer & Scarborough, 2008). MEs are also seen as avenues for job creation and as engine for economic growth within the devolved systems of governance. Trade is one of the fourteen devolved functions in the Kenyan government.

Coming at the second term of the devolved governance in Kenya, this study serves as an evaluation tool for policies intended to stimulate the growth of MEs and poverty alleviation among the MEOs.

On the other hand, studies by Von Pischke (2006) indicate that poverty is still rampant among the MEOs in most of the developing countries. Studies by Hulme and Moore (2007) and Kuratko (2003) reveal that three out of five MEs in Kenya fail within the first one year of operation and this failure rate is the reason for poverty among the MEOs. The review of empirical literature on MEs and economic growth give much attention to the general poverty level in the developing countries. The Kenya National Bureau of Statistics GoK (2015) indicates that the general level of poverty in Kenya is 52% and that the poverty level in Homa-Bay County in general stands at 77.49%. This study sought specifically to establish the level of poverty among the MEOs in Homa-Bay Sub County as opposed to the general level of poverty in the county as a whole. The study was carried out in Homa-Bay Sub County since it has more concentration of the MEs than any other Sub County in Homa-Bay County, Kenya.

Research objective

The objective of the study was to establish the level of poverty among the Micro Enterprise Owners (MEOs) in Homa-Bay Sub County, Kenya.

Literature review

Theoretical Studies

Resource Based View of the Firm Theory

The theory of the resource based view (RBV) of the firm was advanced by Prahalad and Hamel (1990). It postulates that resources internal to the firm are sources of competitive advantage. Such resources should be valuable. Valuable resources are those that are rare, unique and difficult to substitute. The resources believed to be valuable are those that are capable of facilitating conception or implementation of strategies that improve performance of business enterprises (Barney, 1991). The RBV emphasizes the internal organizational capabilities in formulating strategies to achieve competitive advantage. Day (1984) suggests that intangible assets such as knowledge, management, organizational learning and market orientation allow an organization to develop those abilities that enhance competitive advantage and lead to superior business performance. This theory is relevant to the study since it emphasizes the internal organizational capabilities in formulating strategies to achieve competitive advantage. It was therefore paramount for this study to establish the level of poverty among the MEOs in Homa-Bay Sub-County, Kenya.

Equity Theory

Equity theory introduced by Adams (1963) is based on the idea that individuals in any business organization are motivated by fairness. Therefore if they identify inequities in the input or output ratios of themselves and their referent group, they will seek to adjust their input to reach their perceived equity. The level of poverty among the MEOs in Homa-Bay Sub-County is perceived to create some degree of unfairness in the overall productivity of the micro-enterprises in the Sub-

County. A study by Kabeer (2004) revealed that when entrepreneurs have access to micro-credit services such as loans, savings, micro-finance training and insurance, their role in decision-making and business operations are enhanced. Adams (1963) argued that higher individual's perception of equity results in more motivation and that, if any business enterprise perceives an unfair environment, it will be de-motivated to carry out any business activity. The contribution of equity theory to this study therefore calls for fairness in the business operations for higher productivity of the Micro Enterprises and for eventual reduction of Poverty among the Micro Enterprise Owners in Homa-Bay Sub-County, Kenya.

Empirical Studies

Poverty exists in different levels and various forms across the world. At the current threshold of \$1.25 a day, the World Bank estimates that around 25% of the populations in developing regions live below the poverty line. This figure translates to 1.3 billion people living in poverty, or about 20% of the global population (The World Bank Group 2010). As the World Bank broadly defines it, poverty is a "pronounced deprivation in well-being". The poor are deprived of basic necessities in life, such as food, shelter, clothing, and clean drinking water. They also lack access to health care, quality education, and employment opportunities that are important for improving their human capital and facilitating social mobility. Due to the profound impact that poverty has on the well being of the poor, efforts have been made by various multilateral organizations such as the United Nations, to address these problems and combat poverty (Khandker & Khan, 2008).

Through the years, different poverty reduction strategies and instruments have been developed in order to improve the standard of living of the poor and help the people break the vicious cycle of poverty. One such poverty alleviation tool is microfinance (Financial Motivation), which has gained worldwide recognition since the 1990s and has been proven to have positive effects on poverty levels in developing countries (Hossain et al., 2008). Alleviating poverty remains one of the key challenges in many developing economies. In Kenya, a recent nation-wide survey, the 2006 Kenya Integrated Household and Budget Survey (KIHBS), found that 46% of the total Kenyan population is absolutely poor, i.e. they live below the poverty line, whereas 49% of the rural population is absolutely poor.

In many cases, poverty has been defined and measured in economic welfare terms such as income or consumption. An individual is poor if he or she falls below a predetermined level of economic welfare deemed to constitute a reasonable minimum in some absolute level or by the standards of a specific society (Christen & Robert, 2001). The challenge of addressing poverty has remained almost in all of Kenya's development strategies since independence (GoK, 2007). Three quarters of the Kenyan poor are found in the rural areas while the majority of the urban poor live in slum and peri-urban settlements (GoK, 2004). According to the Welfare Monitoring Survey of 1994, the incidence of poverty in Kenya was 47% in the rural areas and 29% in urban areas. The absolute poverty line was Ksh.980 per month for the rural areas and Ksh.1490 per month for urban areas.

Hulme and Moore (2007) argue that poverty levels in Homa-Bay County continue to rise and that the residents of the County have increasingly become unable to afford adequate food and nutrition, access basic services like education, health, safe water and decent housing. The studies by Zimmerer and Scarborough (2008), Wenekers (2000), Nzomo (2006) and Kring (2004) sought to determine the level of poverty in the developing economies. The studies generalized the poverty situation in the economies without establishing the specific poverty levels among the MEOs. This study was specific and sought to establish the level of poverty among the MEOs in Homa-Bay Sub-County, Kenya.

Methodology

Research design

This study adopted a survey research design. It was specifically intended to establish the level of poverty among the Micro Enterprise Owners (MEOs) in Homa-Bay Sub County, Kenya. This design is appropriate for the study since it facilitates the collection of information from a sample of a population in order to describe their characteristics as they relate to the fact (Fraenkel & Wallen, 2006). Moreover, Nachmias and Nachmias, (2009) suggest that surveys are cost-effective and exploratory enabling the researcher to make inferences.

Study area

This study was carried out in Homa-Bay Sub County, Kenya. Homa-Bay Sub County borders Rachuonyo Sub County to the North and Rongo Sub County to the South. It also borders Suba Sub County to the West and Kisii South Sub County to the East. The Sub County has a small shoreline of approximately 16.2 km² to the North where it borders Lake Victoria. The Sub County covers an area of 1,169.9 km² including 30.0 km² of water surface. The Sub County is divided into six administrative divisions, namely, Rangwe, Asego, Riana, Ndhiwa, Kobama and Nyarongi. The Sub County has two parliamentary constituencies namely Rangwe and Ndhiwa constituencies. Rangwe and Asego Divisions make up Rangwe constituency while Ndhiwa, Riana, Kobama and Nyarongi Divisions form Ndhiwa constituency. The Sub County has 27 trading centres and 1,200 registered Micro Enterprises as per the records of the Kenya National Bureau of Statistics GoK (2015).

Target population

The target population consisted of 1,200 Micro Enterprise Owners in Homa-Bay Sub County between 2010 and 2015 as per the records of the Homa-Bay County Strategic Plan 2010-2015 sourced from the Kenya National Bureau of Statistics GoK (2015). The Micro Enterprises were categorised as wholesale, general retail, service and manufacturing. The MEOs were expected to be best placed to articulate issues in the study as they had the conceptual view of the enterprises (Elbana & Child, 2007), a view supported by Hambrick and Mason (1984) who argues that enterprise strategy is shaped by perceptions and opinions of the Micro Enterprise Owners.

Sample size

Stratified random sampling was done to select a sample size of 240 Micro Enterprise Owners in Homa-Bay Sub County. Hair, et al., (2010) recommends a sample size of at least one hundred observations to achieve adequate power in structural equation modelling. Two hundred and forty (240) valid observations in this study, therefore proves sufficient for obtaining adequate power.

Sampling procedure

The target population was stratified into four different business categories and simple random procedure was employed using Yamane (1967) formula to get a sample size of 240 observations as follows:

Business Categories	Number of Enterprises
Whole sale	110
General retail	936
Service	98
Manufacturing	56
Total	1200

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{1200}{1 + 1200(0.05)^2}$$

$$n = \frac{1200}{4}$$

$$n = 300$$

$$n = \frac{300}{1 + \frac{300 - 1}{1200}}$$

$$n = \frac{300}{1.25}$$

$$n = 240$$

Where: n= Sample size

N= Population size

e = the level of precision

Data type and collection method

Sources of data

To achieve the objective of the study, both primary and secondary data were used. Primary data were collected using structured and unstructured questionnaires. Questionnaires were used since the

study was concerned mainly with variables that could not be directly observed such as views, opinions, perceptions and feelings of the respondents. Such information is best collected through questionnaires (Jöreskog and Sörbom 1996). The target population was also largely literate and was unlikely to have difficulties responding to questionnaire items. The sample size was also large enough (240 MEOs in Homa-Bay Sub-County). Given the time constraint, questionnaire was the ideal tool for collecting the primary data. Secondary data was obtained from the Homa Bay County Trade and Development Office in the records of the Kenya National Bureau of Statistics GoK (2015).

Data collection procedure

A letter of introduction was obtained from the university. Scoping for the task then followed. These entailed arranging data collection materials, recruiting and training of the research assistants to help in the data collection exercise.

Data collection instrument

Structured and semi structured questionnaire was used to obtain primary data from the sample. The observed and latent variables were measured on a range of items and scored along a “Strongly disagree” to “Strongly agree” five (5) point Likert scale. Likert scales were used because they communicate interval properties to respondents and therefore produce data that can be assumed to be interval scaled (Fraenkel & Wallen, 2006).

Reliability test for data collection instruments

Reliability refers to the extent to which an experiment, test, or any measuring procedure yields the same results on repeated trials. Reliability test was aimed at determining consistency and stability of the data collection instruments. Since there is little published guidance concerning how large a pilot study should be (Melody & Herzog, 2008), pilot test was conducted on 9 members of the population of 1,200 MEOs randomly selected from the four categories of the Micro Enterprises. Two MEOs were picked randomly from each of the four categories of Micro Enterprises apart from the retail enterprises where three MEOs were picked. Three MEOs were picked from the retail category of Micro Enterprises because they were the majority of the Micro Enterprise Owners in the Sub-County. It was ideal to test the reliability of the instruments by administering them to the pilot survey respondents twice. However, it was difficult to do this when dealing with Micro Enterprises spread in a wide area as was this case (Sekaran, 2000). Therefore to check the reliability of the instruments in this study, Cronbach’s Alpha was used (Cronbach, 1951). Alpha coefficient ranges in value from 0 to 1. The higher the score, the more reliable the generated scale. According to suggestions by Hair et al (2010), the study considered a reliability coefficient of 0.5 in structural equation modelling acceptable. Successful reliability analysis was conducted for the scales measuring financial motivation, poverty and management practices. Table 1 presents the results.

Table 1: Cronbach's Alpha Reliability Test Results for Financial Motivation, Poverty and Management Practices Instruments

Reliability test results for the instruments	Cronbach's Alpha	Number of items
Financial motivation	.507	18
Poverty	.886	3
Management practice	.508	7
Average	.600	28

Source: Pilot Survey Data (2014)

The Cronbach's Alpha Reliability test results for financial motivation, poverty and management practices instruments were .507, .886 and .508 respectively. The average Cronbach's Alpha result was .600. According to suggestions by Hair et al (2010), all the reliability coefficients were acceptable.

Validity Test for Data Collection Instrument

Validity implies the extent to which the constructs of the study or measures in the survey instrument represent the study concept and the degree to which it is free from subjective error (Nunally, 1978). Prior to data collection, the survey instrument was reviewed for content and construct validity. In the first stage, content validity was tested by use of ten purposively chosen expert researchers and practitioners in the field of the study. They were asked to assess the extent to which the indicators sufficiently addressed the subject area based on theoretical and practical considerations (Dillman, 1978). On average, these experts agreed that the instrument addressed the research intention. Construct validity was assessed by involving experienced researchers who were asked to critique the questionnaire for certainty, clarity, and appropriateness of the items used. The questionnaires were also submitted to the supervisors to verify clarity and relevance. Simple, clear and precise words were used in the questionnaires for ease of communication. The instruments covered all the research questions and objectives of the study. To enhance clarity and analysis, scoring for positively stated statements (statements that support the construct under investigation) was developed in a numerically descending order (5, 4, 3, 2, 1) while scoring for negatively stated statements was developed in a numerically ascending order (1, 2, 3, 4, 5).

The Cut-off Mean Scores for the Study

The mean scores were determined from a 5-point Likert scale as follows: 1=Very low, 2= Low, 3=Average, 4=High and 5= Very high. In this study, the cut-off scores were considered as Low, Average and High. The scores from 1-2 were considered Low, score 3 was considered average and scores from 4-5 were considered High.

Ethical Considerations

The basic guiding principle governing data collection is that physical, social and psychological well being of participants is ensured and should not be detrimentally affected by the results of the research. As such, in conducting this study, the following ethical issues were addressed: informed consent, no deception, privacy and confidentiality as well as accuracy. The MEOs were approached and briefed on the purpose of the study. Their permission was obtained and the study was conducted on condition that the researcher would ensure that minimal disruption was created in the operations of the enterprises and that the questionnaires would be self-administered. All the respondents were briefed on the purpose of the questionnaire and voluntary responses were solicited. They were also assured of compensation in case of any inconvenience caused. Participants were made aware that confidential handling of the questionnaire would be maintained and the fact that respondents returned the completed questionnaire anonymously helped to achieve this objective.

Data Editing and Coding

After collecting data from the MEOs, editing of the data was undertaken in order to ensure no omission but completeness, and consistency. Editing is considered as part of the data processing and analysis (Zikmund, 2003). Following the recommendation of Sekaran (2000), this study included all respondents in the analysis who completed at least 75% of questionnaire answers; while those with more than 25% unanswered questions were excluded (i.e. 25 surveys were excluded). Coding is used to assign numbers to each answer (Zikmund, 2003) and allows the transference of data from the questionnaire to SPSS. Such procedures can be undertaken either before the questionnaire is answered (pre-coding), or after (post coding) (DeVaus, 1995). In this study, establishing a data file in SPSS performed the coding procedure, and all items were pre-coded with numerical values. Data editing procedures were undertaken after data were entered into the data file in order to detect any errors in data entry. Out-of-range values in the data file were corrected by referring to the original questionnaire. As the first stage in the data analysis, screening for missing data, outliers, and normality was conducted. Data screening is useful in making sure that data have been correctly entered and that the distributions of variables, that are to be used in the analysis, are normal (Coakes, 2006).

Findings and discussion

Level of Poverty among the MEOs

Poverty was measured using two observed variables namely income and consumption. Respondents were asked to rate how income and consumption were achieved within their Micro-Enterprises. Responses were obtained from a 5-point Likert scale (1-very low, 2-low, 3-average, 4-high, and 5-very high). These responses were then analysed using means and standard deviations. The results are shown in Table 2.

Table 2: Poverty among MEOs in Homa-Bay Sub County.

	N	Mean	Std. Deviation
Income	240	2.34	0.47
Consumption	240	2.31	0.50

Source: Survey data (2014)

The sample size was 240. The mean income was 2.34 with standard deviation of 0.47. Consumption had a mean of 2.31 with standard deviation of 0.50. The mean scores for both income and consumption stood as “Low” on a scale of 1 to 5 scored from “very low” to “very high”. This means that both income and consumption were low hence an indication that poverty was high among the MEOs. Standard deviations (SD) indicated 0.47 and 0.50 both for income and consumption respectively. This means that, there was minimal spread of responses as none was more than 1.00 point away from the mean.

The results of this study were consistent with the findings of the studies by Hulme and Moore (2007) who found out that poverty levels in Homa-Bay County continued to rise and that the residents of the County had increasingly become unable to afford adequate food and nutrition, access basic services like education, health, safe water and decent housing. The study is also consistent with the findings of (Khandker & Khan, 2008) who revealed that due to the profound impact that poverty has on the well being of the people, efforts have been made by various multilateral organizations such as the United Nations, to address these problems and combat poverty. Studies by (Hossain et al., 2008) indicate that different poverty reduction strategies and instruments such as micro-credit have been developed in order to improve the standard of living of the poor and help the people break the vicious cycle of poverty in developing countries.

On the contrary, the studies by Hulme and Moore (2007), (Khandker & Khan, 2008), (Hossain et al., 2008) Zimmerer and Scarborough (2008), Wenekers (2000), Nzomo (2006) and Kring (2004) all sought to determine the poverty situation in the developing economies as a whole without establishing the specific poverty levels among the Micro Enterprise Owners. This study was specific and it sought to establish the level of poverty among the MEOs in Homa-Bay Sub-County, Kenya.

Summary, conclusion and recommendation**Summary of findings**

Poverty was measured using two observed variables namely income and consumption. The mean of income was 2.3 with standard deviation of 0.47. Consumption had a mean of 2.3 with standard deviation of 0.50. Since the average mean score was 3.00, the individual mean response scores for each of the items were below the average. Findings revealed that both income and consumption were low hence an indication that poverty was high among the MEOs. Standard deviations (SD) indicated that there was minimal spread of responses as none was more than 1.00 point away from

the mean. This means that the micro enterprises had income and consumption practices more or less the same way.

Conclusions of the study

From the findings of the study, the conclusion was that poverty is high among the MEOs in Homa-Bay Sub-County.

Recommendations of the study

The study recommends that the MEOs in Homa-Bay Sub-County should develop the use of different poverty reduction strategies and instruments such as savings, micro-credit facilities and ploughing back of profits in order to help them break the vicious cycle of poverty and to reduce level of poverty among them.

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