

**PERCEPTION OF ENTREPRENEURIAL OPPORTUNITIES WITHIN THE  
INTEGRATED EAST AFRICAN COMMUNITY (EAC) BY LARGE SCALE  
MANUFACTURING COMPANIES IN NAIROBI**

**BY**

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## DECLARATION

I, the undersigned, declare that this project is my original work and that it has not been presented in any other university or institution for academic credit.

Signature..... Date.....

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Signature..... Date.....

## **DEDICATION**

This work is dedicated to my late Mother who did not live to see her dream come true.

Mum, your memories have been a pillar to me.

## ACKNOWLEDGMENTS

First and foremost, I thank the Almighty God for giving me the strength to go through this demanding and rewarding exercise.

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*Thank you Lord for giving me health and joy in my life*

## TABLE OF CONTENTS

<b>DECLARATION .....</b>	<b>ii</b>
<b>DEDICATION .....</b>	<b>iii</b>
<b>ACKNOWLEDGMENTS.....</b>	<b>iv</b>
<b>LIST OF ACRONYMS .....</b>	<b>vii</b>
<b>LIST OF TABLES.....</b>	<b>viii</b>
<b>ABSTRACT.....</b>	<b>ix</b>
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
1.1 Background of the Study .....	1
1.1.1 Perception of Entrepreneurial Opportunities.....	2
1.1.2 The Integrated East African Community.....	4
1.1.3 Large Scale Manufacturing Firms in Kenya.....	6
1.2 Statement of the Research Problem .....	8
1.3 Research Objectives.....	10
1.4. Importance of the Study.....	10
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>12</b>
2.1 Introduction.....	12
2.2 Entrepreneurship.....	12
2.3 Entrepreneurial Opportunities .....	16
2.4 Perception of Entrepreneurial Opportunities .....	17
2.5 Economic Integration.....	18
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>20</b>
3.1 Introduction.....	20

3.2 Research Design .....	20
3.3 Population.....	20
3.4 Sample Size and Sampling .....	21
3.5 Data Collection .....	21
3.6 Data Analysis.....	21
<b>CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION .....</b>	<b>23</b>
4.1 Introduction.....	23
4.2 Analysis of General Information .....	23
4.3 Perceived Entrepreneurial Opportunities.....	26
4.4 Factors Influencing Exploitation of Entrepreneurial Opportunities .....	31
4.5 Discussion of findings .....	36
<b>CHAPTER FIVE: SUMMARY AND CONCLUSIONS, RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH .....</b>	<b>37</b>
5.1 Introduction.....	37
5.2 Summary of the Findings.....	38
5.3 Conclusions.....	39
5.4 Recommendations.....	40
5.5 Limitations of the Study .....	41
5.5 Recommendations for Further Studies .....	41
<b>REFERENCES .....</b>	<b>43</b>
<b>APPENDIX.....</b>	<b>51</b>
<i>Appendix I: Letter of Introduction.....</i>	<i>51</i>
<i>Appendix II: Questionnaire.....</i>	<i>52</i>
<i>Appendix III: Large Scale Manufacturing Companies .....</i>	<i>58</i>

## LIST OF ACRONYMS

ACP Secretariat	African, Caribbean and Pacific Secretariat
AGOA	African Growth Opportunity Act
COMESA	Common Market for Eastern and Southern Africa
CASSOA	Civil Aviation Safety and Safety Oversight Agency
EAC	East African Community
EA	East Africa
EADB	East African Development Bank
ECA	Economic Commission for Africa
EU	European Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
KAM	Kenya Association of Manufacturers
KIRDI	Kenya Industrial Research Institute
MDG	Millennium Development Goals
MFIs	Micro Finance Institutions
MNC	Multinational Corporation
MSE	Micro and Small Enterprises
MSME	Micro, Small and Medium-Sized Enterprises
NGO	Non-Governmental Organization
RIA's	Regional Integration Arrangements
SME	Small and Medium-Size Enterprise
WTO	World Trade Organization

## LIST OF TABLES

<b>Table 4.1:</b> Gender of the Respondents .....	23
<b>Table 4.2:</b> Respondent's Working Duration at the Firm .....	24
<b>Table 4.3:</b> Relative Size of the Firm .....	24
<b>Table 4.4:</b> Years in Operation .....	25
<b>Table 4.5:</b> Perception of Export Opportunities for Kenyan Manufactured Goods .....	26
<b>Table 4.6:</b> Perception of Business Opportunities in the EAC .....	27
<b>Table 4.7:</b> Challenges Faced When Responding To Entrepreneurial Opportunities .....	28
<b>Table 4.8:</b> Opening of New Branches within Kenya .....	29
<b>Table 4.9:</b> Opening of New Operations/Companies outside Kenya .....	29
<b>Table 4.10:</b> Evaluating Entrepreneurial Opportunities .....	30
<b>Table 4.11:</b> Capability to Exploit Perceived Entrepreneurial Opportunities.....	31
<b>Table 4.12:</b> Planning, Formulation and Implementation of Expansion Strategies.....	31
<b>Table 4.13:</b> Review of Expansion Strategies .....	32
<b>Table 4.14:</b> Status of the Marketing Environment .....	33
<b>Table 4.15:</b> Competition in the Industry in Kenya .....	33
<b>Table 4.16:</b> Competition in the Industry in the East African Community .....	34
<b>Table 4.17:</b> Exploitation of Perceived Entrepreneurial Opportunities within the EAC.....	35



## ABSTRACT

This research intended to investigate the perception of entrepreneurial opportunities within the integrated East African Community by large scale manufacturing companies in Nairobi. The objectives of the study were to determine the perceived entrepreneurial opportunities within the East African Community countries and to identify factors influencing the exploitation of those opportunities by large scale manufacturing companies in Nairobi.

This study adopted a survey design, as it was most appropriate in the investigation of the perception of entrepreneurial opportunities within the integrated East African Community by large scale manufacturing companies in Nairobi. A sample size of 30 respondents was selected from the members registered by the Kenya Association of Manufacturers. Proportionate sampling was applied to select two groups of 15 respondents each. One comprised of companies, which perform cross border trade while the other comprised of companies, which do not perform cross border trade. The researcher used both primary and secondary data. Secondary data was collected by use of desk search techniques from publications, journals, and annual reports.

The study found out that the large-scale manufacturing companies in Nairobi have high business potential and the EAC provides an attractive investment zone for all companies. Business opportunities in the EAC exist in infrastructure, horticulture, agriculture, Information and Communication Technologies, Energy, manufacturing, mining, building, construction, housing and financial sectors. The main restraints to entrepreneurship in the EAC are insufficient management, marketing, and technical knowledge, political instability, and corruption.

The companies operating across the border should study the managers' past and current experiences with specific resource bundles, strategies, markets, technologies, and stakeholders to predict a firm's future directions and patterns of growth. Future research studies can examine how human and social capital of

entrepreneur's influences the performance of the company in an integrated community. Research should also be undertaken to reveal how an entrepreneurial firm can change or renew the productive opportunity of the team by adding and subtracting members to the founding team.

## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

The rapid globalization of world markets has encouraged companies of all sizes and national origins to expand internationally. To benefit from their international expansion, companies need to foster entrepreneurship throughout their operations. Companies, both large and small have expanded their operations by entering foreign markets. Driven by the powerful forces of technological change, major market shifts and an increasingly global market, companies have used multiple approaches to expand their international operations. As internationalization continues to accelerate, companies need to invest heavily in learning and developing new core competencies in their foreign markets (Zahra and Garvis, 2000).

Trott (1998), states that entrepreneurs are among the more creative of organizational players. It is their business to generate or add value as they venture, introducing new forms, new organizations, new products and new language to the world at large. Entrepreneurship, centred on novelty and the generation of variety in the marketplace, means that the process of innovation, discovery and invention are at work. Not all ventures are equally creative - some copy others' ideas (Trott, 1998). According to Bird (1989), creativity is a fairly abstract and general process of bringing something new into existence, often through imaginative skills. The process of creativity is thought to begin with experiences of doubt, uneasiness and wonder. For the entrepreneur, this might mean recognizing an unexploited opportunity as a result of a need not being met or a resource is not well used or a product is being poorly marketed. The problem is finding a better way to exploit the opportunity. How can this need be met? Or how can this resource be more profitably used? Or how can this product be presented to the market? The entrepreneur will answer these questions through the process of creativity.

### **1.1.1 Perception of Entrepreneurial Opportunities**

Entrepreneurship is one of the most widely used terms in business, management, economics and other related fields. One important thing is that entrepreneurship has different meaning for different people, some use it in the meaning of innovation, some use it for creativity, risk taking, leadership and profit maximization or in social context, some consider it as a start up of business, new production methods and many other different meanings. Davidsson, (2004) describes entrepreneurship as a rich phenomenon which makes it a resourceful field. While defining entrepreneurship, we consider some school of thoughts that have had a major role in defining this field. Entrepreneurship, under the flag of Schumpeter school of thought (Swedburg, 2000), is about innovation in organizational process, thinking up new combination, entrepreneurial behavior and motivation of entrepreneurs. While according to Gartner (Thornton, 1999), entrepreneurship is about creation of new organization or new startup, creating values and entrepreneur meaning owner-manager. In Krizner's view (Swedburg, 2000), entrepreneurship is searching opportunities and exploiting them so it reflects towards the alertness and capability of entrepreneur towards profit opportunities.

Perception is defined as “.....the dynamic and complex way in which individuals select information (stimuli) from the environment, interpret and translate it so that a meaning is assigned which will result in a pattern of behaviour or thought” (Mullins, 2007, p. 209), while Bennet (1997) considers perceptions as a process in which one interprets sensory inputs such as sight, sound smell or feeling. Two people may physically see the same thing, but they may have their own individual interpretations of what it is. Perception is influenced by intelligence, personality expectations, motivations, and interest (Bennet, 1997; Mullins 2007). Attitudes and perception are developed over time and can change as how information and experience are acquired. The perception of entrepreneurship refers to a company's formal and informal activities aimed at increasing innovation and venturing. Innovation has product, process and organizational components (Guth and Ginsberg, 1990). Product innovations create new goods and services, or improve existing ones. Process innovations generate new ways of doing things by developing new systems, processes and procedures.

Organizational innovations develop new types of firms or new ways of structuring these firms' operations (Kanter, 1983). Individually or in combination, product, process and organizational innovations enhance a company's competitive position in international markets and improve its subsequent financial performance.

According to Schumpeter (Swedburg, 2000), innovation is that to combine materials and forces, which are under reach, with different method or with new combination to produce new innovative products. By this definition, it is important to consider that Schumpeter emphasizes innovation rather than invention. Schumpeter's model works through the transformation of production function. To further elaborate innovation and resulting products, there are five forms: the introduction of new goods for users or new quality of goods, the introduction of new method of production-handling production system in new way, the opening of new markets where company had not entered before, even existing or new market, the conquest of a new source of supply of raw material and the carrying out of the new organization of any industry, like the creation of monopoly organization. All these steps indicated a kind of innovation by combining sources, materials and function and producing a new product or service (Swedburg, 2000).

The rapid economic growth and the rise of the middle classes in the EAC particularly in Kenya and Uganda have transformed the business environment in these countries and over the past decade dramatic structural changes in the retail sectors have taken place in the EAC. Previously the manufacturing industry was primarily based on local markets but now the market has been transformed to a large extent to international markets. The fastest transformation is happening in Kenya and Uganda (Darley, 2001). Consequently the East African Community (EAC) presents an attractive market that should not be dismissed and presents attractive investment opportunities in a number of sectors such as trade, tourism, telecommunications, agriculture, fishing, mining, textiles, chemicals, electronic equipment, and motor vehicles (Darley, 2001; EAC Int, 2010).

People within the East African Community believe that the benefits from opportunities in the East Africa Community are overstated and cannot be realized unless other tangible support infrastructure is in place

including a good road network, power, water and an improved telecommunications sector. Yet, in order to get the entrepreneurs to be genuinely interested in the regional integration and to play an active role in it they have to perceive that the benefits to be derived from such participation are real and can indeed see lucrative business opportunities and be in a position to exploit them if they are to engage in business in the region.

### **1.1.2 The Integrated East African Community**

Regional cooperation which had started from the early 20th Century when the three countries were under colonial rule transformed into an EAC in 1967 and collapsed 10 years later. Factors which contributed to the collapse of EAC in 1977 include differences in approaches to development, perceptions about unequal distribution of gains and shortfalls in adequately involving stakeholders in shaping the regional cooperation. Twenty years later EAC was revived as East African Cooperation in 1997 and a new Treaty for the East African Community (EAC) was signed in 1999 (Oyejide, Ndulu, and Gunning, 1999).

The East African Community (EAC) is the regional intergovernmental organisation of the Republics of Kenya, Uganda, the United Republic of Tanzania, Republic of Rwanda and Republic of Burundi with its headquarters in Arusha, Tanzania. The EAC aims at widening and deepening co-operation among the partner states in, among others, political, economic and social fields for their mutual benefit. To this extent the EAC countries established a Customs Union in 2005 and are working towards the establishment of a Common Market by 2010, subsequently a Monetary Union by 2012 and ultimately a Political Federation of the East African States. The entry into force of the treaty establishing the African Economic Community (Abuja Treaty) in May 1994, is seen as a reaffirmation of Africa's determination, at least as far as the content of the Treaty is concerned, not to relent on economic cooperation aiming at the ultimate integration of the continent into an African Economic Community (EAC Int, 2010). The Abuja Treaty committed African countries to cooperation in various sectors of their economies, including human resources development and labor markets. The main areas of cooperation are education and training, labor mobility, health, employment and labor standards (Oyejide, Ndulu, and Gunning, 1999).

The EAC Treaty agreement aims at fostering regional development that is private sector driven, internationally competitive and people-centered in utilizing the region's resources. The new EAC is consistent with recent shifts in the approaches to regional integration in two respects. First, the new wave regional integration arrangements is more outward-looking consistent with a more open model of regionalism. Second, it has been recognized that in addition to reducing tariffs and quotas deepening integration is accompanied by the removal of a wide range of non-trade barriers. The new developments in regional integration have occurred against the backdrop of globalization driven by new technologies, liberalization and competition (Oyejide, Ndulu, and Gunning, 1999).

There are good reasons for regional economic communities to cooperate in education and training for human development. Most African countries lack the resources to sufficiently invest in training teachers, managers, and education planners, but by cooperating they can pool resources, harmonize education systems, and benefit from economies of scale and the sharing of experience. Cooperation and integration in human development also contribute to regional economic integration—by creating a common cultural identity, helping achieve free movement of people and capital, contributing to the development of science and technology, and advancing implementation of the Education for All initiative in the 21st century (Oyejide, et al., 1999).

The East African Community comprises of different organs and institutions. The organs of the East African Community include the summit, The Council of Ministers, The Co-coordinating Committee, Sectoral Committees, The East African court Of Justice and the East African Legislative Assembly. On the other hand the East African Community has institutions that include the Lake Basin Community, Civil Aviation Safety and Safety Oversight Agency (CASSOA), Lake Victoria Fisheries Organization, Inter University Council of East Africa and the East African Development Bank (EADB) (Maasdrop, 1999).

The realization of a large regional economic bloc encompassing Burundi, Kenya, Rwanda, Tanzania and Uganda with a combined population of more than 125 million people, land area of 1.82 million sq kilometres

and a combined Gross Domestic Product of \$60 billion (2008), bears great strategic and geopolitical significance and prospects of a renewed and reinvigorated East African Community. Currently, the regional integration process is at a high pitch. The encouraging progress of the East African Customs Union, the enlargement of the Community with admission of Rwanda and Burundi, the ongoing negotiations of the East African Common Market as well as the consultations on fast tracking the process towards East African Federation all underscore the serious determination of the East African leadership and citizens to construct a powerful and sustainable East African economic and political bloc (Maasdrop, 1999).

The East African Community is being reborn. Since the East African Community (EAC) Treaty of 1999 and the formal launching of the new Community in 2001, the pace has been quickening. A process creating a free trade area and customs union between Kenya, Tanzania and Uganda was begun in January 2005, and negotiations are now starting to establish a full common market between the three countries plus Rwanda and Burundi by 2010. Meanwhile, discussions are under way with a view of 'fast tracking' the final component of the integration process, political federation (EAC Int, 2010).

### **1.1.3 Large Scale Manufacturing Firms in Kenya**

At independence, the Kenya's economy and in particular manufacturing ownership structure was dominated by the European and Asian firms. MNCs from United Kingdom dominated in the European firm's category, which were engaged in heavy manufacturing processes while Asian firms dominated in the light manufacturing industries almost sharing the entire cake with no portion of it left for the indigenous locals (Bigsten and Kimuyu, 2010). Although by this time Kenyan manufacturing industry was relatively the most advanced in comparison to those of the other countries in the region. There was a need to integrate the Africans into the mainstream of the economy despite their low entrepreneurship skills, lack of experience and finance.

Although Kenya is the most industrially developed country in East Africa, manufacturing still accounts for only 14 percent of gross domestic product (GDP). Industrial activity, concentrated around the three largest



urban centres, Nairobi, Mombasa, and Kisumu, is dominated by food-processing industries such as grain milling, beer production, and sugarcane crushing, and the fabrication of consumer goods, e.g., vehicles from kits. There is a vibrant and fast growing cement production industry. Kenya also has an oil refinery that processes imported crude petroleum into petroleum products, mainly for the domestic market (Kimuyu, 1999).

The Manufacturing sector is an area where investment opportunities exist. Initially developed under the import substitution policy, there has now been a shift to export oriented manufacturing as the thrust of Kenya's industrial policy. The sector plays an important role in adding value to agricultural output and providing forward and backward linkages, hence accelerating overall growth. The manufacturing sector now comprises of more than 700 established enterprises and employs directly over, 218,000 persons as at the year 2000. A wide range of opportunities for direct and joint-venture investments exist in the manufacturing sector, including agro-processing, manufacture of garments, assembly of automotive components and electronics, plastics, paper, chemicals, pharmaceuticals, metal and engineering products for both domestic and export markets (Kimuyu, 1999).

Kenya has a large scale manufacturing sector serving both the local market and exports to the East African region. The sector, which is dominated by subsidiaries of multi-national corporations, contributed approximately 13% of the Gross Domestic Product (GDP) in 2004. Improved power supply, increased supply of agricultural products for agro processing, favourable tax reforms and tax incentives, more vigorous export promotion and liberal trade incentives to take advantage of the expanded market outlets through AGOA, COMESA and East African Community (EAC) arrangements, have all resulted in a modest expansion in the sector of 1.4 % per cent in 2004 as compared to 1.2% in 2003 (Bigsten and Kimuyu, 2010).

The sector is large by regional standards and accounts for over 10% of Gross Domestic Product (GDP). It is a major source of employment in urban areas and possesses substantial backward and forward linkages to the rest of the economy and, is key to achieving the country's vision of becoming prosperous and globally

competitive by 2030. Manufacturing exports are targeted at both regional markets, including the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) as well as European and American markets. Starting with agro-processing, Kenyan manufacturers have in recent years, thanks to the African Growth Opportunity Act (AGOA) and associated export processing zones, increased exports of textiles, mainly targeting the US market (Bigsten and Kimuyu, 2010).

## **1.2 Statement of the Research Problem**

In the study by Smith, Matthews and Schenkel, (2006), the search for and discovery of different types of entrepreneurial opportunities: the effects of tacitness and codification, they found that codified opportunities are more likely to be discovered through a systematic search while prior experience is more useful for the discovery of tacit opportunities.

Globalization takes companies on eternal search for market niches for their goods and services worldwide and much focus has been on emerging markets in China and South-East Asia. However the emerging markets in the five countries of the East African Community (EAC) - Kenya, Uganda, Tanzania, Burundi, and Rwanda have received little attention in the academic literature. In this view therefore, there is surprisingly little discussion of the possible benefits and risks that integration poses for the peoples and societies of East Africa. What are the developmental benefits of the EAC, taking into account other integration processes taking place in Western and Southern Africa? What are the opportunities to be seized and the risks to be averted by development-minded stakeholders in the region? There is therefore need to evaluate the perceived entrepreneurial opportunities arising from the integrated market so as to establish whether they induce a positive or negative perception in the integrated East African Community.

Ko and Butler (2004) in their study on alertness, bisociative thinking ability and discovery of entrepreneurial opportunities in Asian Hi-Tech firms, found that the bisociative thinking ability of an entrepreneur, specifically the ability of an entrepreneur to combine matrices of information, plays a rather important role in

mediating the relationship between alertness and opportunity discovery. Ko and Butler, (2005) in their study on bisociation: the missing link between prior knowledge and recognition of entrepreneurial opportunities in Asian Technology-Based firms, found out that bisociative thinking ability mediates the relationship between prior knowledge and opportunity recognition.

Mbote (2002) carried out a study on the perception of opportunities in the regional economic groupings by Kenyan entrepreneurs. He found out that awareness of specific entrepreneurial opportunities was low though perception was rather favourable. A significant percentage of respondents in his study showed little awareness of opportunities, they nevertheless perceived the business opportunities available to be of high and moderate potential due to the increase in the market size. Ackello-Ogutu et.al (2001), did a study on non-tariff barriers and other obstacles to trade in East Africa, and they found out that there was need for policy standardization in the East Africa Community if it were to reap the benefits of a free trade area. Other recommendations included, putting into place institutional framework, the need to create an enabling environment for the private sector, and capacity enhancement for the existing institutions and the need for the governments to eradicate rent seeking habits among the public officials dealing with trade in the region. Another study was carried out by Kosura (2000) on Fiscal and Institutional Implications of Liberalizing trade between Kenya and Uganda. Its findings were that Kenyan exporters experienced trade problems related to imposition of non-tariff barriers and high transport costs. In addition, compliance to regional treaties was quite low. None of the previous studies has dealt with the perception of entrepreneurial opportunities within the integrated East African Community (EAC) by large scale manufacturing companies in Nairobi. Based on this evaluation, there is a gap in literature to warrant a research to be conducted in this field. This research therefore intended to investigate the perception of entrepreneurial opportunities within the integrated East African Community (EAC) by large scale manufacturing companies in Nairobi.

This study sought to answer the following research questions:

- i) What are the perceived entrepreneurial opportunities within the East African Community countries by the large scale manufacturing companies in Nairobi?
- ii) What are the factors influencing the exploitation of those opportunities by large scale manufacturing companies in Nairobi?

### **1.3 Research Objectives**

The general objective of the study was to establish the perception of entrepreneurial opportunities within the integrated East African Community (EAC) by large scale manufacturing companies in Nairobi. The specific research objectives were:

- a) To determine the perceived entrepreneurial opportunities within the East African Community countries by the large scale manufacturing companies in Nairobi.
- b) To identify factors influencing the exploitation of those opportunities by large scale manufacturing companies in Nairobi.

### **1.4. Importance of the Study**

Foremost, the large scale manufacturing Companies will be able to know how effective they have been in exploiting entrepreneurial opportunities within the EAC. This will act as a basis upon which improvement can be sought in the EAC. The companies will be able to know that there exists a broad clientele that has not been reached and proper strategies can be implemented to take advantage of the market potential. The companies in Kenya will recognize the importance of selecting appropriate models in increasing outreach, ensuring sustainability, increasing programme cost-effectively and improving programme design.

Secondly, the research will bring in current statistics that the government can utilize in analyzing the entrepreneurial opportunities within the EAC. The government will be able to know how the integration is assisting in the growth of the EAC economy. The accessibility of entrepreneurial opportunities and its

sustainability by the Kenyans population will come into light. The study will help the government in its desire to create and facilitate favourable policies for the EAC.

Thirdly, in the development of policy papers the role of the international trade greatly needs the effective participation of the EAC. The policy makers will be able to know how well to incorporate the local companies and how to effectively ensure their full participation.

Fourthly, the donors will be able to assess performance of the EAC by comparing programmes to ensure effective use of funds and measuring client-level impact. The study will help stakeholders of companies in assessing the sustainability of these organizations in the EAC. This will enable them decide which Multinational Company branch to fund.

Finally, the research will provide valuable information regarding entrepreneurship. Being upcoming entrepreneurs the academicians will be furnished with relevant information regarding regional trade. It will contribute to the general body of knowledge and form a basis for further research.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

This chapter reviews literature on entrepreneurship, perception of entrepreneurial opportunities which accrue as a result of regional integration and economic integration. The first part deals with Entrepreneurship, definition and the theories of entrepreneurship. The second part looks at entrepreneurial opportunities and their perception. Lastly, literature on economic integration is examined.

### 2.2 Entrepreneurship

Entrepreneurship is generally understood to be analogous to business ownership in the context of a market economy. The word itself has its root in the French word *entreprendre* which means "to do something." The studies of entrepreneurs and entrepreneurship are dominated by economists and business management researchers who focus almost exclusively on the interrelationships between entrepreneurial behaviour/attributes and economic development / business cycles with little attention to the wider linkages between entrepreneurship (part of a wide repertoire of economic behaviour), the local/regional/ global political-economy and cultures (Swedberg, 2000). A broader and more general definition of "entrepreneurship" is not restricted to business ownership or the capitalist market economy, but rather it is a general approach to problem solving that Mintz, (1998) describes as "to get around problems that others find impassable." Entrepreneurship is a part of a wider economic system in production, exchange and consumption. Anthropologists working in both western and non-western societies have known for a long time that the social and economic matrixes are intertwined and mutually embedded in a great variety of configurations depending on ecology, historical legacy and cultural systems (Mintz, 1998; Rees and Smart, 2001). It is pertinent to remind ourselves that the economic and the social are always intertwined in a matrix that transcends the simplistic market axiom of supply and demand.

Individual small-scale enterprises however provide both a nursery and a proving ground for creativity, innovation and enterprise. The person who successfully starts a business may work with it until it becomes a large national or even an international enterprise, or they may move through succession of venture until they find the sector where their talents can be most fruitfully applied. As noted by Natural Science Foundation (1981), evidence from industrialized countries suggest that more genuine innovation are produced for every dollar that is spent on research by small firms than in large businesses. Very few small businesses in poor countries operate in industries where explicit research would be appropriate, and are unlikely to account for this activity in such a way that the cost or the result could be measured (Harper, 1984).

According to Trott (1998), Entrepreneurs are among the more creative of organizational players. It is their business to generate or add value as they venture, introducing new forms, new organizations, new products and new language to the world at large. Entrepreneurship, centred on novelty and the generation of variety in the marketplace, means that the process of innovation, discovery and invention are at work. Not all ventures are equally creative - some copy others' ideas (Trott, 1998).

According to Bird (1989), creativity is a fairly abstract and general process of bringing something new into existence, often through imaginative skills. The process of creativity is thought to begin with experiences of doubt, uneasiness and wonder. For the entrepreneur, this might mean recognizing an unexploited opportunity as a result of a need not being met or a resource not well used or a product being poorly marketed. The problem is finding a better way to exploit the opportunity. How can this need be met? How can this resource be more profitably used? Or how can this product be presented to the market? The entrepreneur will answer these questions through the process of creativity.

Entrepreneurship means different things to different people. Entrepreneurship refers to a company's formal and informal activities aimed at increasing innovation and venturing. Innovation has product, process and organizational components (Guth & Ginsberg, 1990). Product innovations create new goods and services, or improve existing ones. Process innovations generate new ways of doing things by developing new systems,

processes and procedures. Organizational innovations develop new types of firms or new ways of structuring these firms' operations (Kanter, 1983). Individually or in combination, product, process and organizational innovations enhance a company's competitive position in international markets and improve its subsequent financial performance.

Venturing centers on the creation of new businesses or markets. International venturing takes the company into a new territory, market or even an industry. It exposes the firm to different cultures, markets and systems of innovation. It also connects the firm to different and possibly diverse, networks of suppliers, competitors, and customers (Zahra, Ireland & Hitt, 2000). This gives the firm access to different resources, especially the knowledge needed to refine and extend the company's capabilities. International venturing can revitalize the company's operations and extends its potential sources of competitive advantage.

Innovation and venturing often complement one another, especially as the firm expands internationally. Venturing defines a company's strategic territory (business scope), whereas innovation makes the pursuit of opportunities within given markets possible and profitable. Success in international markets frequently requires products that have innovative designs and manufacturing features. Creating these products requires effective organizational and process innovation. Successful international companies know how to leverage these innovations across borders. These companies work hard to adapt their products to local cultures. When it is not possible to adapt existing products, successful firms develop products that target those markets specifically (Zahra & Garvis, 2000).

Economies of scale and scope significantly reduce the firm's costs of operations, while improving its ability to compete and improve its performance. This direct relationship has been supported previously in some empirical studies, especially those relating to international diversification. Exposure to different national markets, with different structures and market demands, may encourage the firm to innovate. As international expansion continues, the firm can learn different skills that allow it to build those capabilities needed to acquire and maintain a strong competitive position and improve its financial performance in these markets.



Learning means the acquisition of new skills (technological, competitive, administrative, marketing, or social) that can augment and expand the firm's current capabilities (Zahra & Garvis, 2000).

Internationalization connects the firm to different suppliers, buyers and other networks. Contacts (or interactions) with such networks enable the firm to gain new knowledge, a factor that can spur innovation (Zahra, George & Garvis, 1999). Networks are a vital source of information about new market trends. Information gathered from networks also offers a basis for examining a firm's product portfolio, manufacturing processes, and other processes (McEvily & Zaheer, 1999). Information gained from new networks enable the company to locate new market niches or identify weaknesses in its international operations. Either way, this process can fuel and intensify the firm's entrepreneurship (Morris, 1998). Constant surveying of the environment can also keep the firm alert to, and aware of, emerging opportunities in existing or new markets. Alertness is an integral part of the entrepreneurial process (Kirzner, 1979).

Internationalization exposes the firm to different national systems of innovations (Nelson, 1993). Countries vary significantly in their organization of industries and the systems that they use to promote entrepreneurship. These differences reflect historical investment patterns (Porter, 1999), cultural differences (Shane, 1994a) and geography (Krugman, 1998). Exposure to these different systems can promote learning, where the firm learns from the actions and strategies of its competitors. Over time, imitation becomes a foundation for radical innovation as has happened in Korean and Japanese multinationals (Kodama, 1992).

Internationalization spurs entrepreneurship by lowering executives' perceptions of risks. Entrepreneurship centers on taking calculated risks (Stevenson & Gumpert, 1991). Investments made in radical innovations or new market entry is usually high, without significant guarantees of success. As the firm expands internationally, investments made in entrepreneurial activities are spread over many markets. This can reduce senior managers' perceptions of their respective levels of risk and significantly influence their decisions. Specifically, when executives do not feel that reputations, positions, or rewards are at significant risk, they are likely to support entrepreneurship (Zahra, 1991).

To date, the internationalisation, entrepreneurship and performance linkages have received limited attention in past research. Morck and Yeung (1991) found that entrepreneurship significantly moderates the effect of multinationality on a company's financial performance. Multinationality, defined as the number of countries in which the firm competes, has a higher positive effect on performance when the firm is entrepreneurial. This finding reiterates the value of being entrepreneurial as the company proceeds to internationalise its operations. Zahra and Garvis (2000) reach a similar conclusion, while suggesting this relationship is context-specific. Therefore, the payoff from entrepreneurship depends on the firm's business environment. It depends also on the firm's structure and how it manages its international operations.

### **2.3 Entrepreneurial Opportunities**

Research indicates that entrepreneurship is associated with superior company performance according to a study of 119 Fortune 500 companies which found such a positive relationship (Zahra, 1991). Another study of 102 companies in mature industries reached a similar conclusion (Zahra, 1993). A study of 239 medium-sized manufacturing firms also found a positive relationship between entrepreneurship and a company's subsequent financial performance (Zahra, Ireland & Hitt, 2000). This latter study also found that international venturing is positively associated with future financial performance. Likewise, a study of 437 Swedish firms found that entrepreneurship is positively associated with performance (Wiklund, 1999). Other studies, however, concluded that the relationship between entrepreneurship and a company's performance is contingent upon the external environment (Zahra, 1993; Zahra & Covin, 1995). Finally, a study found that entrepreneurship in the international operations of 167 companies was related to company performance but this link was contingent upon a firm's external environment (Zahra & Garvis, 2000).

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#### **2.4 Perception of Entrepreneurial Opportunities**

The development of subjective entrepreneurial insights concerning new productive opportunities involves the pre-condition of intimate familiarity with the firm. Familiarity involves the experiential “knowledge about the unique characteristics of machinery, physical environment, people, performance strategies, and jobs in a particular section at a particular time” (Goodman and Leyden, 1991: 579). With experiential knowledge of the firm, individuals can develop a better understanding of firm policies and organizational language and may become more committed to the organization., firm-specific knowledge and organizational capabilities is also developed though experience within a specific firm cannot be readily transferred to another firm (Harris and Helfat, 1997).

Experience produces increased knowledge about things and contributes to ‘objective’ knowledge in so far as its results can be transmitted to others. But experience itself can never be transmitted; it produces a change frequently a subtle change in individuals and cannot be separated from them. Therefore, managers’ experience based intimate knowledge of the firm’s resources and organizational capabilities may contribute substantially to a hard-to-imitate system of entrepreneurial renewal for the firm. Despite the substantial economic value of firm-specific experiences, an extensive period of experience in the same organization may not contribute in a linear way to a firm’s capacity of entrepreneurial services. As upper-echelons theory reveals, after early economic success and initial learning, managers may commit psychologically to business-level and corporate-level strategies that they are comfortable with, and with each passing year, these senior managers may increasingly believe in the correctness of their worldview (Finkelstein and Hambrick, 1996).

Long tenure in the firm may diminish managers' inclination to communicate with outside information sources and to seek or to heed external advice. Managers may become both less perceptive and less receptive to new information that signals that previously agreed upon or implemented decisions are no longer as appropriate. Because managers may become more risk averse with extended tenure in a specific firm, these senior managers may lack the agility of mind to formulate and to implement adaptive (or preemptive) changes other than incremental changes or imitative changes (Wiersema and Bantel, 1992).

Thus, it may not be desirable to have a top management team where all or most of the managers have uniformly high levels of firm-specific experience. Instead, a healthy mix of managers with different levels of experience in the firm may create more synergistic interactions among managers as the experienced managers' historical knowledge of the firm blends with different entrepreneurial perceptions of managers who are relatively new to the firm but who still have other important (business and/or non-business) experiences. Research suggests that the best results for innovation are achieved when the team contains different backgrounds and different perspectives (Tushman and O'Reilly, 1997). The most prolific entrepreneurial visions may potentially emerge from combining tacit knowledge of a firm's unique bundle of resources and capabilities with a diverse set of entrepreneurial perceptions about the new economic "demand" conditions.

## **2.5 Economic Integration**

Entrepreneurship, which embodies both innovation and venturing activities, is crucial to the conception, development and execution of an innovative and effective global strategy that creates value for the company and its shareholders. Even though a careful analysis of the competitive landscape in foreign markets is imperative, entrepreneurship enables a company to deliver greater value to its customers, shareholders and other stakeholders (Birkinshaw, 1997). Entrepreneurial behavior has complementary Kirznerian and Schumpeterian dimensions. Following Kirzner (1979), a firm should be alert to emerging opportunities in international markets. This alertness is important in recognizing, defining, and pursuing selected

opportunities. Alertness also influences the types and timing of strategic moves that companies undertake. Following Schumpeter (1934), a company also has to engage in product, process and organizational innovations to capitalize on and benefit from emerging market opportunities. Successful global firms frequently play a different game from their less successful rivals: they engage in an effective process of resource recombination through innovation and venturing. This process alters the fabric and the dynamics of competition in their industries (Zahra, 1991).

Regional integration arrangements (RIAs) constitute an increasingly significant feature of the world trade system. Africa and East Africa in particular is not an exception to this phenomenon. Estimates show that more than half of total world trade occurs through regional trade blocs/agreements and that world trade under RIAs grew from 43 % to 60 % between 2001 and 2005 (OECD 2005). The aim of economic integration in the EAC region is to tap opportunities of economies of scale arising from a larger market and investment area in order to accelerate growth and wealth creation in the region and develop the capacity to compete more meaningfully in the global economy. The premise is that larger markets, more competition and improved policies will increase the incentive for both domestic and foreign direct investment and so raise incomes. In this process the private sector will play a leading role consistent with the provision of the Treaty in respect of private sector driven and people centered integration (Oyejide, Ndulu, and Gunning, 1999).

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter encompasses the research methodology to be used in the field. It focuses on the sources of data and their collection techniques, the sampling procedure to be adapted and tools for data presentation and interpretation. Research methodology is a system of explicit rules and procedure upon which research is based and against which claims for knowledge are evaluated. This chapter focuses on the sources of data and their collection techniques, sampling procedures to be adopted and tools for data presentation and analysis.

### **3.2 Research Design**

This study adopted a cross sectional survey design as it was the most appropriate in the investigation of the perception of entrepreneurial opportunities within the integrated East African Community (EAC) by large scale manufacturing companies in Nairobi. This would give the required observation of the kind of strategies prevalent and factors affecting management and how those were being addressed. Other researchers in their studies had also used this method.

### **3.3 Population**

The population of interest was all the large scale manufacturing companies in Kenya that were based in Nairobi. These were as provided in the Kenya Association of Manufacturers handbook (2009). KAM has members drawn from formal sector industries comprising of small, medium and large enterprises. All together, the members constitute 13 industrial sectors. The large scale manufacturing companies which are involved in Sugar, Cement, Soda Ash, Milk, Beer and Cigarettes production were sampled from the KAM Directory. According to the KIRDI Directory of Manufacturing Industries (1997), a firm with more than 50 employees is considered large, 20-49 employees is medium size while small firms are those with 1-19 employees. This study adapted this definition.

### **3.4 Sample Size and Sampling**

The study selected a sample size of 30 respondents from the members registered by the Kenya Association of Manufacturers. Proportionate sampling was applied to select two groups of 15 respondents each. One comprised of companies which perform cross border trade while the other comprised of companies which do not perform cross border trade. The study focused on the Managing Director or Business Development Manager in the respondent firm. Nairobi was chosen due to the geographical convenience to the researcher as well as the cost of collecting the data. This was still fairly representative given that over 75% of the KAM members are found to be in this region. The KAM listing was used as the basis because it was the most organized. This implies that only the manufacturer's who were registered as members were studied.

### **3.5 Data Collection**

The researcher used both primary and secondary data. Primary data was obtained through self-administered questionnaires with closed and open-ended questions (see appendix). As much as possible, a 5-point likert scale was used to determine the perception of entrepreneurial opportunities within the integrated East African Community (EAC) by large scale manufacturing companies in Nairobi. The closed ended questions enabled the researcher to collect quantitative data while open-ended questions enabled the researcher to collect qualitative data. The questionnaire was divided into three parts. Part A was concerned with the general information about respondents. Part B dealt with the perception of entrepreneurial opportunities within the integrated East African Community (EAC) by large scale manufacturing companies in Nairobi, while Part C was concerned with factors influencing exploitation of entrepreneurial opportunities. Secondary data was collected from publications, text books, journals, newspapers, websites and magazines as well as information from the library and the internet.

### **3.6 Data Analysis**

The collected data was thoroughly examined and checked for completeness and comprehensibility. The data was then summarized, coded and tabulated. Descriptive statistics such as Means, Standard Deviation, and

Frequency Distribution were used to analyze the data. Data presentation was done by the use of pie charts, bar charts and graphs, percentages and frequency tables. This ensured that the gathered information was clearly understood. Data was coded and entered into the Statistical Package for Social Sciences (SPSS) database for analysis. SPSS was used to perform the analysis as it aids in organizing and summarizing the data by the use of descriptive statistics such as tables.



## CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

### 4.1 Introduction

This chapter presents a detailed discussion of the research findings in an attempt to achieve the research objectives. Data analysis was carried out based on the objectives of the study.

### 4.2 Analysis of General Information

30 questionnaires were distributed to the Managing Director or Business Development Manager in the respondent firms. However, only 25 were completed and returned, representing an 83.33% response rate.

#### 4.2.1 Gender of the Respondents

The study sought to find out the gender of the respondents. It captured the gender of the respondents. Table 4.1 shows their response.

**Table 4.1:** Gender of the Respondents

	<b>Frequency</b>	<b>Percent</b>
Male	18	72.00
Female	7	28.00
Total	25	100.0

Table 4.1 shows that 72.00% of the respondents interviewed were male with 28.00% of the respondents being female.

#### 4.2.2 Respondent's Working Duration at the Firm

The study sought to find out how long the respondent had worked with the firm which is captured in table 4.2.

**Table 4.2:** Respondent's Working Duration at the Firm

	<b>Frequency</b>	<b>Percent</b>
5 – 10 yrs	12	48.00
Less than 5 yrs	8	32.00
More than 10 yrs	5	20.00
Total	25	100.0

From the table above it is evident that most of the respondents had worked at the firm for between 5 and 10 years. 48.00% of the respondents had worked for the firm for 5 to 10 years, 32.00% had worked for the firm for less than 10 years and the rest 20.00% for more than 10 years.

#### **4.2.3 Relative Size of the Firm**

The study sought to find out the relative size of the firm in terms of the number of employees which is captured in table 4.3 below.

**Table 4.3:** Relative Size of the Firm

	<b>Frequency</b>	<b>Percent</b>
100 or more	15	60.00
51 – 100	10	40.00
Total	25	100.0

Table 4.3 shows that majority (60.00%) of the respondents indicated that the number of employees at their firm's was 100 or more, while the rest, 40.00% indicated that the number of employees at their firm's was between 51 and 100. Large scale firms are usually deemed to be those that have a workforce of 51 and above.

#### 4.2.4 Period of Business Operations in the EAC

The study sought to find out the period of business operations in the East African Community. From the sampled companies, 15 did not carry out business operations in the East African Community. The results are as indicated below.

**Table 4.4:** Years in Operation in the EAC

	<b>Frequency</b>	<b>Percent</b>
Over 7 years	10	66.67
5-7 years	3	20.00
2-5 years	2	13.33
Total	15	100.0

From the table above 66.67% of the respondents indicated their companies had carried out business operations in the East African Community for over seven years, 20.0% are had been in operation in the East African Community for 5-7 years and the rest 15.0% had been in operation in the East African Community for 2-5 years. It is evident that most of the distribution companies have been in operation for a period of over seven years.

#### 4.2.5 Products manufactured

The respondents were asked to indicate the type of products they manufactured. They indicated that their companies manufactured sugar, cement, soda ash, milk, beer and cigarettes, industrial chemicals, laboratory reagents, shoes, and shoe soles, wires, household and industrial chemicals, duplicating paper, tissue paper, and coloured cover papers. The respondents were then asked to indicate the countries in which they carried out their operations and they indicated that these were Kenya, Uganda, Tanzania, Rwanda and Burundi.

### 4.3 Perceived Entrepreneurial Opportunities

The general objective of the study was to establish the perception of entrepreneurial opportunities within the integrated East African Community (EAC) by large scale manufacturing companies in Nairobi. The specific research objectives were to determine the perceived entrepreneurial opportunities within the East African Community countries by the large scale manufacturing companies in Nairobi and to identify factors influencing the exploitation of those opportunities by large scale manufacturing companies in Nairobi.

#### 4.3.1 Perception of Export Opportunities for Kenyan Manufactured Goods

The respondents were asked to indicate their perception of the export opportunities to the EAC for Kenyan manufactured goods. The results are as indicated in the table 4.5 below.

**Table 4.5:** Perception of Export Opportunities for Kenyan Manufactured Goods

	Frequency	Percent
High	15	60.00
Moderate	8	32.00
Very high	7	28.00
Total	25	100.0

As shown in the table, majority of the respondents (60.00%) indicated that they had a high perception of export opportunities to the EAC for Kenyan manufactured goods, 32.00% indicated they had moderate perception of export opportunities to the EAC for Kenyan manufactured goods. The rest (28.00%) had a very high perception of export opportunities for Kenyan manufactured goods to the EAC market.

#### 4.3.2 Perception of Business Opportunities in the EAC

The respondents were asked to indicate their perception of the business opportunities in the EAC. The results are as indicated in the table 4.6 below.

**Table 4.6:** Perception of Business Opportunities in the EAC

	<b>Frequency</b>	<b>Percent</b>
Very high	17	68.00
High	5	20.00
Moderate	3	12.00
Total	25	100.0

As shown in the table, majority of the respondents (60.00.0%) indicated that they perceived business opportunities to be very high in the EAC, 20.00% indicated that they perceived business opportunities to be high in the EAC. The rest (12.00%) indicated that they perceived moderate business opportunities in the EAC.

The respondents further indicated that there is high potential because the EAC is one of the world's fastest reforming regions in terms of business regulation. It has simplified investment procedures and one stop centre facility provided by national investment promotion agencies and offers generous incentives. It also possesses a vibrant and upcoming capital and securities market with high level of intra regional trade and cross-border investments traversing all sectors. There is also an abundant labour force which is educated, trained, mobile, skilled and enterprising.

When asked the areas in which they saw business opportunities in the EAC, the respondents indicated infrastructure, horticulture, agriculture, Information and Communication Technologies, Energy, Manufacturing (Textiles and apparel, Iron, steel and other metals, Electronics Electrical equipment, Plastics,

Chemicals, Pharmaceuticals, Beverages, Packaging), Mining, Building, Construction and Housing. They also cited business opportunities in the financial sector. The respondents further indicated that the EAC partner states should offer guarantees to investors. The laws in all partner states should protect property rights and facilitate the acquisition and disposal of property, including intellectual property. Investments should be guaranteed against nationalization and expropriation.

**4.3.3 Challenges Faced When Responding To Entrepreneurial Opportunities**

The respondents were asked to rate on a scale of 1 to 5; (1=very important, 2=fairly important, 3=important, 4=somehow important, 5=not important) the importance of the following challenges as faced by their companies when responding to entrepreneurial opportunities within the Integrated East African Community. The results are indicated in the table 4.7 below.

**Table 4.7:** Challenges Faced When Responding To Entrepreneurial Opportunities

	<b>Mean</b>	<b>Std. Deviation</b>	<b>Rank</b>
Technology	1.8333	0.91026	1
Qualified personnel	1.9444	0.89265	2
Competition	1.9444	0.98400	3
Labour Costs	2.3056	1.16667	4
Consumer perceptions	2.3333	1.12122	5
Cost cutting	2.6667	1.28730	6
Suppliers	2.8889	1.36858	7
Globalization	3.0833	1.20416	8

The respondents ranked technology, qualified personnel, and competition as very important challenges faced by their companies when responding to entrepreneurial opportunities within the Integrated East African Community. This is evidenced by their ranking and the means of 1.8333, 1.9444 and 1.9444 respectively.

Labour Costs, consumer perceptions, cost cutting and suppliers were rated by the respondents as being fairly important challenges with means of 2.3056, 2.3333, 2.6667 and 2.8889 respectively. Globalization was ranked last though it was rated as being an important challenge with a mean of 3.0833.

#### 4.3.4 Opening of New Branches within Kenya in the Last 10 Years

The respondents were asked to indicate whether their company had opened new branches within Kenya in the last 10 years. The results are indicated in the table 4.8 below.

**Table 4.8:** Opening of New Branches within Kenya

	Frequency	Percent
Yes	20	80.00
No	5	20.00
Total	25	100.0

As shown in the table above, majority of the respondents (80.00%) indicated that their company had opened new branches within Kenya in the last 10 years while the rest (20.00%) indicated that the company had not opened new branches. They further indicated that the new branches had been opened in the industrial towns such as Nakuru, Kisumu, Thika, Mombassa and AthiRiver.

#### 4.3.5 Opening of New Operations/Companies outside Kenya in the Last 10 Years

The respondents were asked to indicate whether their company had opened new operations/companies outside Kenya in the last 10 years. The results are indicated in the table 4.9 below.

**Table 4.9:** Opening of New Operations/Companies outside Kenya

	Frequency	Percent
Yes	10	66.67
No	5	33.33

Total	15	100.0
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As shown in the table above, of the 15 companies that had operations in the EAC, majority of the respondents (66.67%) indicated that their company had opened new operations/companies outside Kenya in the last 10 years, while the rest (33.33%) indicated that the company had not opened new branches. They further indicated that the new branches had been opened in Southern Sudan, Tanzania, Uganda and Rwanda.

#### 4.3.6 Evaluating Entrepreneurial Opportunities

The respondents were asked to rank factors in terms of importance to the company when evaluating entrepreneurial opportunities which were arising. The results are indicated in the table 4.10 below.

**Table 4.10:** Evaluating Entrepreneurial Opportunities

	Mean	Std. Deviation	Rank
Market share growth	1.95	1.191	1
Customer satisfaction	1.95	0.686	2
Profit maximization	2.10	1.119	3
Target return on investment	2.20	1.105	4
Survival	2.40	0.821	5
Product quality	3.05	1.191	6

It is illustrated in table 4.10 above that the respondents ranked market share growth and customer satisfaction as very important factors when evaluating entrepreneurial opportunities which are arising with means of 1.95 each. Profit maximization, target return on investment and survival were rated as being important with means of 2.10, 2.20 and 2.40 respectively. The respondents were indifferent about product quality as a factor to be considered when evaluating entrepreneurial opportunities which are arising.



### 4.3.6 Capability to Exploit Perceived Entrepreneurial Opportunities

The respondents were then asked to indicate the extent to which their companies possessed the necessary capability to exploit perceived entrepreneurial opportunities in the East African Community countries. The results are indicated in the table 4.11 below.

**Table 4.11:** Capability to Exploit Perceived Entrepreneurial Opportunities

	Frequency	Percent
Great extent	20	80.00
Very great extent	5	20.00
Total	25	100.0

As shown in the table above, majority of the respondents (80.0%) indicated that their company possessed the necessary capability to exploit perceived entrepreneurial opportunities in the East African Community Countries to a great extent. The rest (20%) indicated that the company possessed the necessary capability to exploit perceived entrepreneurial opportunities in the East African Community countries to a very great extent.

### 4.4 Factors Influencing Exploitation of Entrepreneurial Opportunities

The second objective of the study was to identify the factors influencing the exploitation of entrepreneurial opportunities by large scale manufacturing companies in Nairobi.

#### 4.4.1 Planning, Formulation and Implementation of Expansion Strategies

The respondents were then asked to indicate who participates in planning, formulation and implementation of expansion strategies. The results are indicated in the table 4.12 below.

**Table 4.12:** Planning, Formulation and Implementation of Expansion Strategies

	Mean	Std. Deviation	Rank
Directors	1.6111	0.72812	1
Top managers	1.7500	0.76997	2
Operation managers	2.2778	0.91374	3
All staff	3.5833	0.76997	4

As shown in the table above, the respondents ranked directors in first place with a mean of 1.6111 as the ones participating in planning, formulation and implementation of expansion strategies followed by top managers with a mean of 1.7500. Operation managers and all Staff were ranked third and fourth with means of 2.2778 and 3.5833 respectively.

#### 4.4.2 Scanning of the Environment

The respondents were then asked to indicate whether they scan the environment before exploitation of perceived entrepreneurial opportunities. All the respondents indicated that their respective companies always scan the environment before exploitation of perceived entrepreneurial opportunities.

#### 4.4.3 Review of Expansion Strategies

The respondents were asked to indicate whether they regularly review their expansion strategies. The results are indicated in the table 4.13 below.

**Table 4.13:** Review of Expansion Strategies

	Frequency	Percent
Always	22	88.00

Sometimes	3	12.00
	25	100.00

Majority (88.00%) of the respondents indicated that their respective companies took regular review of the expansion strategies, while the rest (12.00%) indicated that they reviewed the expansion strategies sometimes.

#### 4.4.4 New Product Development or Improvement of Existing Products

When the respondents were asked whether their company engaged in new product development or improvement of existing products, all the respondents indicated that their respective companies always engaged in new product development or improvement of existing products.

#### 4.4.5 Status of the Marketing Environment

The respondents were asked to describe the marketing environment. The results are indicated in table 4.14 below.

**Table 4.14:** Status of the Marketing Environment

	Frequency	Percent
Competitive	18	72.00
Fairly turbulent	4	16.00
Unstable	3	12.00
Total	25	100.0

Majority (72.00%) of the respondents indicated that the marketing environment was competitive, 16.00% indicated the marketing environment was fairly turbulent, while the rest (12.00%) indicated it was unstable.

#### 4.4.6 Competition in the Industry in Kenya

The respondents were asked to describe competition in the industry in Kenya. The results are indicated in table 4.15.

**Table 4.15:** Competition in the Industry in Kenya

	Frequency	Percent
Hyper competition	12	48.00
Very strong competition	10	40.00
Strong competition	3	12.00
Total	25	100.0

Majority (48.00%) of the respondents indicated that there was hyper competition in the Kenyan industry, 40.00% indicated very strong competition in the Kenyan industry, and while the rest (12.00%) indicated that there was strong competition in the Kenyan industry.

#### 4.4.7 Competition in the Industry in the East African Community

The respondents were then asked to describe competition in the industry in the East African Community. The results are indicated in table 4.16 below.

**Table 4.16:** Competition in the Industry in the East African Community

	Frequency	Percent
Hyper competition	18	72.00
Very strong competition	7	28.00
Total	25	100.0

Majority (72.00%) of the respondents indicated that there was hyper competition in the East African Community, while 28.00% indicated very strong competition in the in the East African Community.

#### 4.4.8 Exploitation of Perceived Entrepreneurial Opportunities within the EAC

The respondents were asked to rate on a scale of 1 to 5; (1= Not important, 2= Somehow important 3= Important, 4= Fairly Important, 5= Very important) how the company values the following factors in the exploitation of perceived entrepreneurial opportunities within the East African Community countries. The results are indicated in the table 4.17 below.

**Table 4.17:** Exploitation of Perceived Entrepreneurial Opportunities within the EAC

	Mean	Std. Deviation	Rank
Market size	4.5278	.81015	1
Market growth potential	4.1111	1.00791	2
Political stability	3.8056	1.00909	3
Government regulations	3.6667	0.95618	4
Technological factors	3.5833	0.76997	5
Demand for products	3.5556	0.77254	6
Changes in consumer taste	3.2778	1.03126	7
Competition	3.1944	0.98036	8
Availability of finance	3.0278	1.08196	9

Availability of suppliers	2.9167	0.93732	10
Business regulations	2.5278	0.99960	11
Ethical standards	2.2778	0.91374	12
Number of employees	1.8611	1.19888	13
Staff policy	1.7500	1.02470	14

From the results above it is evident that the companies rate market size and market growth potential as fairly important in the exploitation of perceived entrepreneurial opportunities within the East African Community countries. Political stability, government regulations, technological factors, demand for products, changes in consumer taste, competition and availability of finance are rated as being important in the exploitation of perceived entrepreneurial opportunities within the East African Community countries as shown by their means which range between 3.0278 and 3.8056. The respondents rated availability of suppliers, business regulations and ethical standards as being somehow important while number of employees and staff policy were deemed not to be important.

#### **4.5 Discussion of findings**

This chapter presented a detailed discussion of the research findings while answering the research objectives. Data analysis was carried out based on the objectives of the study. Descriptive statistics such as means, and frequency distribution were used to analyze the data. Data presentation was done by the use of graphs, percentages and frequency tables.

Previous studies have also reached similar conclusions. Mbote (2002) carried out a study on the perception of opportunities in the regional economic groupings by Kenyan entrepreneurs. He found out that awareness of specific entrepreneurial opportunities was low though perception was rather favourable. A significant percentage of respondents in his study showed little awareness of opportunities, they nevertheless perceived the business opportunities availed to be of high and moderate potential due to the increase in the market size.

Ackello-Ogutu et.al (2001) did a study on non-tariff barriers and other obstacles to trade in East Africa, and they found out that there was need for policy standardization in the East Africa Community if it were to reap the benefits of a free trade area. Other recommendations included, putting into place institutional frame work ,the need to create an enabling environment for the private sector, and capacity enhancement for the existing institutions and the need for the governments to eradicate rent seeking habits among the public officials dealing with trade in the region. Another study was carried out by Kosura (2000) on Fiscal and Institutional Implications of Liberalizing trade between Kenya and Uganda. Its findings were that Kenyan exporters experienced trade problems related to imposition of non-tariff barriers and high transport costs. In addition, compliance to regional treaties was quite low.

## **CHAPTER FIVE: SUMMARY AND CONCLUSIONS, RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH**

### **5.1 Introduction**

This chapter discusses the results gathered from the analysis of the data, as well as the conclusions reached. The chapter incorporates the various suggestions and comments given by the respondents in the interview. Findings have been summarized alongside the objectives of the study, conclusions have been drawn from the study and the recommendations for action are also given.

## 5.2 Summary of the Findings

The respondents to this study were Managing Directors or Business Development Managers to whom 30 questionnaires were distributed. 25 questionnaires were completed and returned, representing an 83.33% response rate. Majority of the respondents interviewed were male with most of them having worked at the firm for between 5 and 10 years. Majority of the respondents indicated that the number of employees at their firms was 100 or more. It is generally accepted that large scale firms usually have a workforce of 51 and above. The sample was selected to include 15 companies that did not carry out business operations in the East African Community. Majority of the respondents indicated their companies had carried out business operations in the East African Community for over seven years. The respondent companies manufactured sugar, cement, soda ash, milk, beer and cigarettes, industrial chemicals, laboratory reagents, shoes, and shoe soles, wires; household and industrial chemicals, duplicating paper, tissue paper, and coloured cover papers.

Majority of the respondents indicated that they had a high perception of export opportunities to the EAC for Kenyan manufactured goods and a high perception of business opportunities in the EAC. The respondents further indicated that there is high potential because the EAC is one of the world's fastest reforming regions in terms of business regulation. It has simplified investment procedures, provides a one stop centre facility provided by national investment promotion agencies and offers generous incentives. It also possesses a vibrant and upcoming capital and securities market with high level of intra regional trade and cross-border investments traversing all sectors. There is abundant labour force which is educated, trained, mobile, skilled and enterprising. Business opportunities in the EAC were cited in infrastructure, horticulture, agriculture, Information and Communication Technologies, Energy, manufacturing (Textiles and apparel, Iron, steel and other metals, Electronics Electrical equipment, plastics, chemicals, pharmaceuticals, beverages, packaging), mining, building, construction and housing. They also cited business opportunities in the financial sector. They stated that the EAC partner states should offer guarantees to investors and the laws in all partner states should protect property rights and facilitate acquisition and disposal of property, including intellectual property.



The respondents ranked technology, qualified personnel, and competition as very important challenges faced by their companies when responding to entrepreneurial opportunities within the Integrated East African Community and indicated that market share growth and customer satisfaction were very important factors when evaluating entrepreneurial opportunities which are arising. The companies were deemed to possess the necessary capability to exploit perceived entrepreneurial opportunities in the East African Community Countries and they always scan the environment before exploitation of perceived entrepreneurial opportunities. Companies took regular review of the expansion strategies and engaged in new product development or improvement of existing products. The marketing environment was competitive and there was hyper competition in both the Kenyan industry and the East African Community Industry. Market size and market growth potential were rated as fairly important in the exploitation of perceived entrepreneurial opportunities within the East African Community countries.

### **5.3 Conclusions**

Based on the results from data analysis and findings of the research, it can be concluded that creative deployment of a firm's resources can be problematic not only because the economic opportunities to their use have to be perceived or imagined, but also because the effectiveness of a resource to a particular application can never be guaranteed in advance. It can be concluded that the large scale manufacturing companies in Nairobi have high business potential and the EAC provides an attractive investment zone for all companies. Business opportunities in the EAC exist in infrastructure, horticulture, agriculture, Information and Communication Technologies, Energy, manufacturing, mining, building, construction, housing and financial sectors. The companies have the necessary capability to exploit perceived entrepreneurial opportunities in the East African Community.

It can also be concluded that the aim of economic integration in the EAC region is to tap opportunities of economies of scale arising from a larger market and investment area in order to accelerate growth and wealth creation in the region and develop the capacity to compete more meaningfully in the global economy. The

premise is that larger markets, more competition and improved policies will increase the incentive for both domestic and foreign direct investment and so raise incomes.

The formation of the East African Community has created an untapped rapidly growing market that has received little attention by international business and business researchers. The rapid growth has been driven by the liberalization of the economies and high factor investment. Product strategy should emphasize low cost medium quality products due to limited competition, price elasticity, and emphasize their foreign origin or brand. Distribution strategies need to address longer distribution channels and frequent interruptions in supply. Competitive intensity and rivalry is high and the fragmented ownership of businesses creates opportunities for consolidation of industries. The main restraints on marketing in the EAC are insufficient management, marketing, and technical knowledge, political instability, and corruption.

#### **5.4 Recommendations**

There is need to create a suitable mechanism to encourage the East Africans in the Diaspora in order for them to channel resources/remittances towards investment projects in the Partner States. This should involve among other initiatives, formulation of incentives to attract financing from the Diaspora in form of tax incentives. There is also need for banks to diversify financial products to attract money from the Diaspora. Member states also need to improve their support to common institutions. Studying the past individual and shared experiences of managers can be fundamental in understanding a firm's current entrepreneurial choices. The companies operating across the border should study the managers' past and current experiences with specific resource bundles, strategies, markets, technologies, and stakeholders to predict a firm's future directions and patterns of growth. Intra-EAC tariffs should be completely liberalised as this will enhance the competitiveness of firms, by triggering reallocation of resources which will in turn lower production costs and result in economies of scale; and it will also strengthen the industrial base of the EAC in the long term. Additional capacity building measures should be proposed to strengthen the competitive environment which will help companies overcome the market entry barriers which at present restricts exports to the rest of the

world. Initiating measures like training and providing additional information to the producers and importers will initiate momentum to remove barriers within the EAC which will allow the domestic industries to redirect resources towards greater regional cooperation.

### **5.5 Limitations of the Study**

The researcher targeted firms based in Nairobi only and out of the 30 Firms targeted; only 25 responded. Therefore, the results of this study are based on the 25 firms that responded. If all the firms targeted had responded, and all firms in Kenya had been targeted, the results may have been different. Some respondents were also uncooperative citing that they were busy and didn't have time to fill the questionnaire.

Time was also a major constraint given that the questionnaires were targeted at the senior most Managers and Managing Directors of the firms who at times were too busy to respond in a timely manner. Accessing the individual firms for the required data was also not easy as they were located in different parts of the city with others being in neighboring towns of Thika and AthiRiver.

With the integration of the EAC ongoing, most large scale manufacturing firms were just starting to feel the challenges and benefits of integration and therefore some claimed they could not give accurate information as they had not adequately felt the effect of regional integration.

### **5.5 Recommendations for Further Studies**

Future research on entrepreneurship can benefit substantially from a richer conceptualization of the entrepreneur that is not limited to a certain position or title, but recognizes the potential that entrepreneurial insight and creativity can be provided by all individuals in the organization. In addition, future research studies can examine how human and social capital of entrepreneurs influences the performance of the company in an integrated community. Research should also be undertaken to reveal how an entrepreneurial firm can change or renew the productive opportunity of the team by adding and subtracting members to the founding team. Continued research in the area of entrepreneurial types is needed to continue to move the

field of entrepreneurship forward. Research can also be done targeting all Manufacturing firms in Kenya or the EAC.

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## APPENDIX

### *Appendix I: Letter of Introduction*

Dear \_\_\_\_\_

I am a graduate student pursuing a Master's degree at the School Of Business, University of Nairobi. The title of my study is "**Perception of Entrepreneurial Opportunities within the East African Community (EAC) by Large Scale Manufacturing Companies in Nairobi**". As a leading Kenyan entrepreneur, and an active member of KAM, you have fallen in my sample of 30 members out of the entire membership hence you are selected to participate in this study as a categorical respondent in the manufacturing industry because of your role and experience in the large manufacturing firms.

May I kindly request for your assistance in providing the information sought in the enclosed questionnaire. Your participation is essential to this study and will enhance our knowledge of Entrepreneurial Opportunities within the East African Community. I also wish to inform you that the information you provide will only be used for academic purposes and will be treated with strict confidentiality and in no way will your name or that of your firm appear in the research report.

In case you would be interested, I can send to you the report of the findings on request.

Thank you very much.

Charles M. Ndolo

MBA student,

*Appendix II: Questionnaire*

The information provided here will only be used for academic purpose and will be treated with maximum confidentiality

**PART A: GENERAL INFORMATION**

1. Indicate the registered name of your company .....

2. When was your firm incorporated in Kenya? .....

3. What is your designation? .....

4. Please indicate your Gender.      Male [ ]    Female [ ]

5. How long have you been working with the firm? .....

Less than 5 yrs [ ]    5 – 10 yrs [ ]    more than 10 yrs [ ]

6. What is the size of the firm? (Number of employees)

Less than 50 [ ]    51 – 100 [ ]    100 or more [ ]

7. For how long have you had business operations in EAC?

.....

8. What do you manufacture?

i. ....      ii.....      iii.....

iv.....      v.....

9. In which countries are you involved in business operations?

i.....      ii.....      iii.....      iv.....

v.....

**PART B: PERCEIVED ENTREPRENEURIAL OPPORTUNITIES**

1. What is your perception of the export opportunities to the EAC for Kenyan manufactured goods?

Very high [ ] high [ ] moderate [ ] low [ ] very low [ ]

2. How do you perceive the business opportunities in the EAC?

Very high [ ] high [ ] moderate [ ] low [ ] very low [ ]

3. If high potential, why? .....

.....

4. If low potential, why? And what can be done to increase the potential?

.....

.....

5. Mention the areas in which you see business opportunities in the EAC.

.....

.....

6. In order to make use of these opportunities, what can the EAC countries do to enable entrepreneurs make full use of them? .....

.....

.....

7. On scale of 1 to 5, please rate the importance of the following challenges as faced by your company when responding to Entrepreneurial Opportunities within the Integrated East African Community –Tick as appropriate. (1=very important, 2=fairly important, 3=important, 4=somehow important, 5=not important)

	Very Important	fairly important	important	Somehow important	Not important
Cost cutting	[ ]	[ ]	[ ]	[ ]	[ ]
Globalization	[ ]	[ ]	[ ]	[ ]	[ ]
Technology	[ ]	[ ]	[ ]	[ ]	[ ]
Qualified personnel	[ ]	[ ]	[ ]	[ ]	[ ]
Competition	[ ]	[ ]	[ ]	[ ]	[ ]
Consumer perceptions	[ ]	[ ]	[ ]	[ ]	[ ]
Suppliers	[ ]	[ ]	[ ]	[ ]	[ ]
Labour Costs	[ ]	[ ]	[ ]	[ ]	[ ]

8. Have you opened new branches within Kenya in the last 10 years?

Yes [ ] No [ ]

If no, why? .....

.....

If yes, state how many and where .....

9. Have you opened new operations/companies outside Kenya in the last 10 years?

Yes [ ] No [ ]

If yes, state how many and where.....

.....



10. Please rank the following factors in terms of importance to your company when evaluating entrepreneurial opportunities which are arising.

	Very important	Fairly Important	Important	Somehow important	Not important
Customer satisfaction					
Product quality					
Market share growth					
Profit maximization					
Survival					
Target return on investment					

11. In your assessment, to what extent does your company possess the necessary capability to exploit perceived entrepreneurial opportunities in the East African Community countries?

- Very great extent            Great extent
- Moderate extent            Low extent
- Very low extent

**PART C: FACTORS INFLUENCING EXPLOITATION OF ENTREPRENEURIAL OPPORTUNITIES**

1. Who participates in planning, formulation and implementation of expansion strategies?

- Directors            Top Managers            Operation Managers            All      Staff
-

2. Do you scan the environment before exploitation of perceived entrepreneurial opportunities? Always [ ]  
Sometimes [ ] Never [ ]

3. Do you regularly review your expansion strategies?  
Always [ ] Sometimes [ ] Never [ ]

4. Does your company engage in new product development or improvement of existing products?  
Always [ ] Sometimes [ ] Never [ ]

5. How would you describe your marketing environment as? (Tick as appropriate)

Stable [ ] fairly stable [ ]  
Unstable [ ] Fairly Turbulent [ ]  
Competitive [ ]

6. How do you describe competition in the industry in Kenya?

Very weak competition [ ] Weak competition [ ]  
Strong competition [ ] Very strong competition [ ]  
Hyper competition [ ]

7. How do you describe competition in the industry in the East African Community?

Very weak competition [ ] Weak competition [ ]  
Strong competition [ ] Very strong competition [ ]  
Hyper competition [ ]

8. In your opinion, how does the company rate the following factors in the exploitation of perceived entrepreneurial opportunities within the East African Community countries? (Please rank in order of importance) (1= Not important, 2= Somehow important 3= Important, 4= Fairly Important, 5= Very important).

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Market size	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market growth potential	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Changes in consumer taste	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Government regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Business regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ethical standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Political stability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Availability of suppliers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Availability of finance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Technological factors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Demand for products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Staff policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Number of employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. What suggestions do you have on how your company can exploit perceived entrepreneurial opportunities within the East African Community countries?

.....

.....

.....

### *Appendix III: Large Scale Manufacturing Companies*

#### **Companies Operating in the EAC Community**

1. ABB Electric Company
2. Aluminium Africa Ltd
3. Atlas Copco Kenya Ltd
4. Bata Shoe Company (Kenya) Ltd
5. Bayer East Africa
6. Bestfoods Kenya Ltd
7. Colgate Palmolive (EA) Ltd
8. De la Rue Ltd United Currency
9. East African Breweries Ltd
10. General Motors East Africa
11. Henkel Kenya Ltd
12. Nestlé Foods
13. Procter and Gamble EA Ltd
14. Siemens Ltd
15. Tetra Pack
16. Glaxo Smithkline Kenya Ltd
17. Cargill Kenya Ltd
18. BAT Industries United
19. Unilever Tea Kenya Ltd

## **Companies Operating in Locally**

1. Chandaria Industries Limited
2. Orbit Chemicals Industries Limited.
3. Topen Industries
4. Weltech Industries.
5. Osho Chemical Industries
6. Bamburi Portland Cement Company (BPCC)
7. East African Portland Cement Company (EAPC)
8. Kenya United Steel Ltd (KUSCO),
9. Rolmil (Kenya) Ltd
10. Associated Steel Company Limited
11. Panpaper
12. East African Packaging Industries (EAPI)
13. East African Bata Shoe Company
14. Mobil
15. Kenol Kobil
16. Bidco Oil Refineries,
17. KAPA Oil Refineries,
18. Palmac Oil Refiners,
19. Pwani Oil Refiners
20. Unilever
21. Alpha Fine Foods Ltd
22. Associated Paper & Stationery Ltd
23. Beta Healthcare International Limited