

Entrepreneurs Psychological Perspective and Enterprise Graduation in Eldoret Town, Kenya

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Abstract

Micro and Small Enterprises (MSEs) enormously contribute to the Kenyan economy through employment and income generation. In spite of this contribution, their performance in terms of graduation is little understood. The evidence supporting the view of micro and small enterprises as the engine of growth is limited. This study was based on Schein's model by Edgar Schein career Anchors was anticipated to shade light on the motivation on the graduation of MSEs. The main objective of the study was to determine the effect of psychological perspective of an entrepreneur on enterprise graduation in Eldoret town Kenya. The study was conducted in Eldoret Municipality Central Business District (CBD) in Uasin Gishu County targeting micro and small enterprises licensed and registered by Eldoret Municipal Council. A sample size of 189 was selected in this study. Stratified-simple random sampling technique was used. Primary and secondary data was used to achieve the objective of the study. Primary data was collected using questionnaires and secondary data was collected from Eldoret Municipal achieve. Data was analyzed using descriptive statistics and inferential statistics. The study findings indicated that; the psychological perspective of an entrepreneur had a statistical significant effect with graduation. The study concludes that entrepreneurs' should enhance their entrepreneurial competence.

JEL Classifications: B21, D8

Keywords: Entrepreneurs Psychological Perspective, Enterprise Graduation, Eldoret town, Kenya

1. Introduction

This study focused on the effect of Entrepreneurs Psychological Perspective on Enterprise Graduation in Eldoret town, Kenya. A starting point is then how many micro and small enterprises effectively graduate. For the purposes of this study "graduation" is defined as growth to the next scale in terms of Number of workers. That is, from the category of 1-4 workers are categories as (micro-enterprise). It is assumed that employing more workers (paid or unpaid) indicates higher sales, improved productivity and expansion in general (Liedholm & Mead, 1993). The distinction between micro, small and medium enterprises varies greatly by country and even within a single country, different organizations categories firms differently. Some define a micro-enterprise as a

business with up to five workers, while others situate it at ten workers. This study specifies in 1-4 workers a micro-enterprise, 5-49 workers as small firms, 50-99 workers as medium enterprises. This study follows Liedholm and Mead's (1993) pioneering work, situating the threshold at 10 and 50 workers respectively. The evidence supporting the view of micro and small enterprises as the "engine" of growth is in fact not conclusive, developed and developing countries show that job creation and growth are highly concentrated. These imply that great majority of MSEs are not very growth prone. The European Commission found that 50% of total net job creation in the MSEs sector is created by a mere 4% of these firms (Manu, 1998). In Sub-Saharan Africa indicates a similar pattern: the enterprises that significantly contribute to employment growth are in fact just 1% of the MSEs (Mead, 1994). By implication, it would appear that small-enterprises fall into two categories. There is a very large group of them that, for various reasons, will not develop their business beyond a certain (small) scale, and there is a very small group of entrepreneurs who are capable of expanding their business. A question arises then, how long do startup business typically last? Thus the research investigates the effect of entrepreneur's psychological perspective on enterprise graduation in Eldoret town, Kenya

1.1. Hypothesis

The independent variable in this study was entrepreneurs psychological perspective which included willing to risk, entrepreneur's confidence, creating new products, achieving targets, taking control of business and confidence in decision making. The dependent variable was enterprise graduation that included number of workers. Thus the hypothesis was formulated as follows:

H₀₁: There is no statistically significant relationship between the psychological perspective of an entrepreneur and enterprise graduation.

2. Literature Review

2.1 Psychological Perspective of an Entrepreneur

Psychology is the understanding of the ways of a relatively stable pattern or profile of thoughts, feelings and actions that characterize a particular personality of the entrepreneur, (Wickham, 2006). Desire to create something new or innovate is the ability to see problems in new ways, the ability to recognize which ideas are worth pursuing coupled with persuasive skills- being able to persuade other of the value of this new ideas (Baron & Shane, 2008). Psychology is a subject that is characterized by an understanding of the ways that different schools of psychology approach the concept of personality and the application of those approaches for thinking about the personality of the entrepreneur (Wickham, 2006). He suggested that each school has its own theoretical underpinning and methodological approach. Critically, each sees the concept of personality in a different light, (Carver & Scheier, 2000). Develop definition of personality that covers areas of general agreement across the different schools. They suggest personality is:

Organized - it has a coherent unity and is not fragmented.

Active - personality is maintained by and revealed through dynamic processes.

Physical - personality is psychological concept, but it is derived from physical (anatomical, neurophysiologic) processes, particularly, but not exclusively, in the brain.

Casual - personality determines how an individual will act and react in particular circumstances.

Regular - the personality of an individual is consistent over periods of time, and lead to consistent patterns of behavior.

Manifest - it shows up in many different ways, including physical states, effective moods, personal feelings, decisions and actions. Around this core, different psychological schools develop different interpretations of the personality concept (Jarvis, 2000). Desire to do something new to graduate - usually the motivation of entrepreneurs relates to a sense of achievement. In essence, the size of the venture is a way of "keeping the score". Entrepreneurs are also driven by a desire to make a difference to the world, (Mohanty, 2005).

2.2 Graduation of MSEs

In spite of the great expectations arisen by the micro and small enterprise sector, such optimism is not supported by the actual facts in either the developed or the developing world. Few solid empirical studies on graduation rates exist (Mouly, 1978). The main exception is a unique data source from the Gemini project led by Liedholm and Mead (1993), which systematically collected information on informal enterprises to empirically test assumptions about enterprise survival, death, growth and graduation. Over a time span of fifteen years starting in 1980, the group gathered data on more than 50,000 enterprises employing up to 50 workers in the Dominican Republic, Botswana, Kenya, Malawi, Swaziland, Zimbabwe, Sierra Leone, Bangladesh, Jamaica, Honduras, Thailand and Egypt. It was estimated that fewer than 20% of those enterprises with four or less workers grew at all (Mead, 1994; 1999). Most enterprises that start small continue to be small: in the segment of enterprises of four or less workers only 1% graduated to the next size category of more than 10 workers (Liedholm & Mead 1987; Mead & Liedholm, 1998). Other research teams reported similar findings. Less than 10% of firms in the size-class with fewer than 10 workers ever grow to the 10-59 workers' category in five Sub-Saharan countries. In the next size-class (10-49 employees), where more firms tend to be formal and entry costs are higher, there was more mobility: 22% of the firms (most with start-up sizes averaging about 40 employees) had been able to grow beyond their size-class since their inception. A more recent World Bank report in Ghana, Kenya, Zimbabwe and Cameroon estimated slightly higher rates (World Bank, 2002; 2004). It established that over a period of 5-6 years the graduation rate in Ghana was 20% and in Kenya, 10%. It also confirmed (Stevenson & St-Onge, 2005) that micro-enterprises (less than 10 workers) almost never jump two categories to become medium enterprises (more than 50 workers). The World Bank report shows higher graduation rates but covered only the manufacturing sector. According to (Eversole, 2000), it is clear intuitively that not all the poor can become entrepreneurs and develop a successful business.

The first difference is motivation: entrepreneurs are simply not interested in expanding their business. They are forced into creating a firm by unemployment or other economic shocks, while growth-oriented entrepreneurs make an affirmative choice based on the identification of a specific business opportunity (Reynolds *et al.*, 2004). Entrepreneurs raise capital, carry out investments, and claim the resulting residual earnings, but they are far from following learning-led competitiveness strategies and are not driven by entrepreneurial goals. Their objective is to feed their families and preserve their precarious, subsistence-level micro-enterprises 'in the hope that something good will happen' (Cotter, 1996) in the enterprise continuum. Even when they receive assistance services (credit, bulk purchases, technology, and export promotion schemes). Their inability to sustain a specified level of well-being leads them to diversify their income sources, so if it fails, it would have only a limited, manageable impact on the total household income (Wood, 2003). As posed by Wright, the poor are too smart or too risk-averse to put all their eggs in one basket and invest exclusively in one activity or enterprise (Wright, 1998). Research has found that around 20% of the households in India who had a micro-enterprise had a second and even third source of income (Banerjee & Duflo, 2007). The percentages rise to 47% in Cote d'Ivoire and Indonesia, 36% in Pakistan, 20.5 % in Peru and 24 % in Mexico. A survey in eight districts in West Bengal found that the median family had three working members and seven occupations (Banerjee & Duflo, 2007). The specialization necessary to develop a larger-scale micro-enterprise (and the exposure that comes from it) is not what the poor are looking for, however profitable such a mono-focused micro-

enterprise may be. Research in Zambia found that as much as half of the enterprise owners saw their business as a survival effort and did not show any entrepreneurial capabilities (risk taking or plans for expansion), while another 30% saw their micro-enterprise as a temporary activity while a market gap existed or until they could find waged work (Phillips & Bhatia-Panthaki, 2007).

A second characteristic that differentiates survival and graduation-oriented entrepreneurs is that the former barely have an income to satisfy the needs of the household, let alone reinvest profits in the business. Estimating earnings is evidently a very difficult task, but was attempted in Kenya by the Gemini team (Daniels, 2001). For two thirds of the firms surveyed, earnings were even below the minimum subsistence wage set by the government for unskilled workers, which is considered too low for a family to satisfy even its basic needs. Entrepreneurs kept their business open, nevertheless, because half of them had this business as a complementary source of income that provided less than half of the household needs. In turn, without accumulation technical innovation is minimal. (Kotter, 1996) points out that entrepreneurs realistically ask themselves: ‘why spend money to buy more supplies with which to produce more products to sell to poor people shopping in markets already saturated with cheap goods, when your customers won’t pay higher prices so you can’t recoup your product improvement investment.

Another difference is market positioning. Enterprises are found in segments of the market characterized by low barriers to entry, market saturation, price- rather than quality-driven purchases and a low skill component. In a study in Zambia, (Phillips & Bhatia-Panthaki, 2007) found that as much as 50% of the entrepreneurs thought there was a market opportunity to develop a business because they saw others in that activity. It is a choice explained by the risk aversion of the poor, stronger than their appetite for returns (and consequent higher risks). They therefore read market saturation as a signal that a sector is profitable, which further depresses prices and profits.

There is also a gender dimension distinguishing survival and graduation of enterprises. Most of the entrepreneurs are women struggling to balance their productive and reproductive roles (Marini & Marcucci, 2003). They can hardly work on the expansion of their enterprises when they become pregnant every year or are overworked in the household, uneducated and unexposed to markets. Poor women prefer to expand only to the limits of their own labour and management capabilities’, so not expanding their business makes a lot of sense to them (Nichols Marcucci, 2001). According to Stevenson & St-Onge ‘Going for Growth’ project report (2005), the majority of women who own micro-enterprises live in rural areas with limited access to markets, credit, information, training, business development services, technology, business networks and proper business premises. They are sometimes restricted from holding title to property (which impacts on their ability to borrow from banks without the consent of their husbands), and are restricted in their mobility due to child-care and household responsibilities. In some cases, women are constrained from networking with men in a business environment and this seriously impedes their ability to access information, markets and business services. In a study in Bangladesh, the Philippines, Zimbabwe and Tunisia, Nichols Marcucci (2001) reports that women’s enterprises tend to be younger and smaller, use less modern technology, are concentrated in low investment and less profitable sub-sectors. Instead, men tend to be concentrated in more economically dynamic sub-sectors. In fact, most women have a micro-enterprise because they are responsible for the food security in their households and not as a result of entrepreneurial capabilities or personal choice (Mayoux, 1995). Men, on the other hand, are seen as responding to the attractive characteristics of self-employment such as increased earnings, independence and the opportunity to directly benefit from one’s own work. While entrepreneurs may qualify for micro-credit schemes, the amounts loaned are normally too small for growth-oriented entrepreneurs, who seek different sources of funding and credit facilities (Zandniapour, Sebstad, & Snodgrass, 2004). These programmes often target women alone; they use group lending and group-based collateral arrangements which are not appropriate for growth-oriented entrepreneurs (Richardson, Howarth, & Finnegan, 2004). In contrast, a study of evaluation

papers of Business Development programmes in Africa, Asia, Middle East, North Africa, Latin America, the Caribbean, and transition countries commissioned by USAID revealed that while these programmes helped enterprises to increase their sales, those firms with 10 to 45 workers benefited more from participating than micro-enterprises with 1 to 9 workers (Zandniapour *et. al.*, 2004). However, a starting point is then how many micro and small enterprises effectively graduate.

2.3 Conceptual Framework

The study analyzed the effect of entrepreneurs psychological perspective on enterprise graduation different Micro and small enterprises in order to enhance the graduation to the next level of the enterprise. The conceptual framework for this study is presented in Figure 1. It is the assumptions of this study that enterprise graduation is achieved through a process that combines of entrepreneur’s psychological perspective on enterprise graduation. The independent variables in this study included psychological perspective. The dependent variable was enterprise graduation. Psychological perspective included willing to risk, entrepreneur’s confidence, creating new products, achieving targets, taking control of business and confidence in decision making.

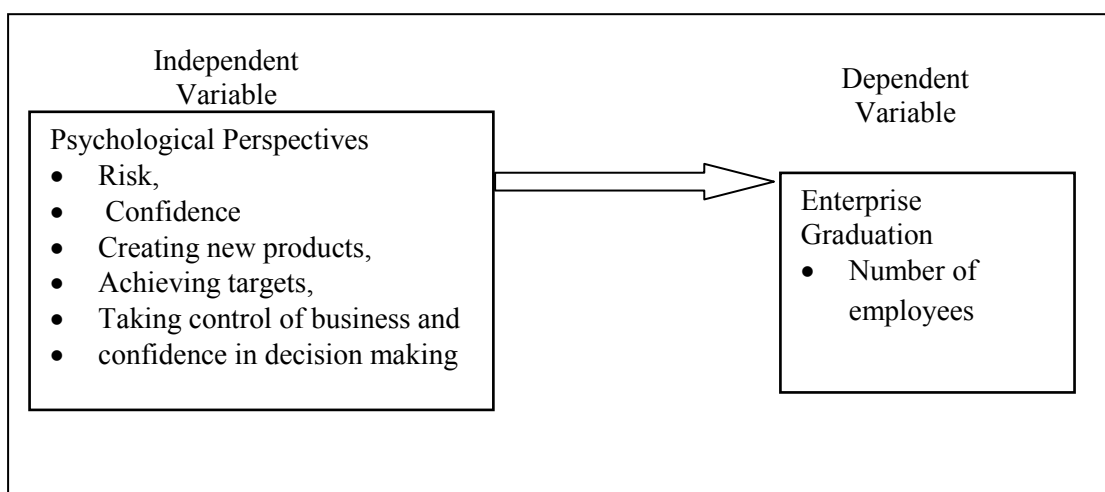


Figure 1. Conceptual Framework of Entrepreneurs Psychological Perspective on Enterprise Graduation

2.4 Research Gap

Graduation of micro and small enterprises is exceptional, as stated so far, but it still possible and happens for a small portion of enterprises. A pattern of who is more likely to graduate needs to be identified in order to support perhaps increase the proportion of enterprises that grow. This study explored of entrepreneurs psychological perspective on MSEs graduation against other studies.

3. Methodology

This study was conducted in Eldoret Town which is located in Uasin Gishu County, Kenya. There are 3,006 small traders, distributed among all the estates such as Langas, Huruma, Pioneer, Kimumu, Central Business District (CBD), Kapsoya, Kidiwa, and Maili Nne. This study concentrated in Central Business District (CBD) which had 1176 Micro and small enterprises. The researcher’s choice of Eldoret Town is because it is at the heartbeat of Rift Valley that records high number of farmers and entrepreneurs drawn from across the country. This study employed a survey research design. The purpose of using a survey design provides a quantitative or numeric

description of trends, attitudes or opinions of MSEs population by studying a sample of MSEs population (Creswell, 2013). It generalizes from sample to a population so that inferences can be made about the characteristics and behavior of MSEs in Eldoret Town (CBD) (Babbie, 1990). The respondents were selected using stratified and simple random sampling techniques. Stratified sample was simply to divide the MSEs population of 1176 into streets, then take a random sample from each, with the number chosen from each street ensuring that the overall sample contains that each enterprise has an equal chance of selection in the selection process of MSEs (Allen *et al.*, 2011). The study employed questionnaires as the research tool because it is economical than other data generation methods (Oates, 2006). A large amount of data can be generated for relatively low cost of materials and time. Questionnaires are easy for respondents to complete and easy for researcher to analyze. Descriptive statistics was used by using pie charts, bar graphs, frequencies and percentages. Inferential statistics was used by applying spearman's rho correlation of coefficient to ascertain the relationship between the variables. Ordinal regression was used to estimate the effect of the independent variables on the dependent variable and phi was used to look at the strength of the relationship between variables. The sample Size was determined using the coefficient of variation formula (Nassiuma, 2000). A total of 189 respondents were selected for this study by the researcher with the aid of a trained research assistant. 187 questionnaires were analyzed, 2 were dropped due to respondents inability to respond to questions. The pilot test in this study was draw from Kitale Central Business District (CBD) which stimulates the procedures and protocols that had been designed for data collection. This ensures the questions are clear to understand and help remove ambiguity (White, 2000). This study ensured reliability through Cronbach's alpha reliability test as indicated in Table 1. Equally the study ensured validity through content validity. The study ensured ethical consideration by obtaining a permit from the Kenya National Council for Science and Technology and issued a research permit and a letter from the office of the town clerk, Eldoret municipal council authorizing the researcher to undertake the research work.

Table 1. Cronbach's alpha reliability analysis

Items	Cronbach's alpha
Psychological Perspective	0.600
Graduation	0.761
Overall Reliability Analysis	0.642

4. Results and Discussions

4.1 Relationship between Psychological Perspective of an Entrepreneur and Enterprise Graduation

The relationship between psychological perspective of an entrepreneur and enterprise graduation was based on the study objective.

4.1.1 *Descriptive Statistics of Psychological Perspective of an Entrepreneur in Relation to Motivation*

The frequencies of Psychological Perspective of an Entrepreneur in Relation to Motivation are presented in Table 2. The results show that, majority of the entrepreneurs (161, 86%) agreed that they are willing to risk their personal assets in venturing into Business Avenue while (21, 11%) entrepreneurs did not agree, that they should risk their personal assets in venturing into business. (160, 85%) enterprises agreed that they love creating new products and services and making a

difference in enterprise continuum, while the remaining (10, 6%) enterprises did not agree. Enterprises (185, 99%) agreed that they feel good when they achieved their business target. The remaining (2, 1%) enterprises was not in agreement. (185, 99%) of the entrepreneurs agreed that they love taking control of their businesses, while the remaining (2, 1%) entrepreneurs did not agree. (182, 97%) enterprises agreed that they have confidence in decision making abilities when venturing into business. The remaining (5, 3%) enterprises did not agreed. According to (Stokes, Wilson, & Mador, 2010, p.16), focuses on the entrepreneur that aimed at identifying the so-called entrepreneurial traits. They suggested that this personality perspective takes the premise that certain individuals possess a distinctive range of personality characteristics which are sufficiently stable and enduring to predispose them to entrepreneurial activity (including such characteristics as a high need for achievement, internal locus of control, risk-taking and self-efficacy), which is in agreement with the findings of this study. Majority of respondents therefore are in agreement that they are willing to risk their assets when venturing into business, Entrepreneurs also feel good when they achieve their business targets and that they have confidence in decision making abilities when venturing into business. This finding is in agreement with (Stokes *et al.*, 2010). Entrepreneurial behavior and psychological theories which were put forth by experts and are very much relevant with regard to the entrepreneurial behavior are; Maslow's need hierarchy theory, and McClelland's need achievement theory.

Table 2. Descriptive statistics of psychological perspective of an entrepreneur

	Rank	Enterprise	%
Willing to risk personal assets	Agreement	161	86
	Neutral	5	3
	Disagreement	21	11
Total		187	100
Creating new products and services	Agreement	158	85
	Neutral	17	9
	Disagreement	10	6
Total		187	100
Achievements in business targets	Agreement	185	99
	Neutral	2	1
	Disagreement	0	0
Total		187	100
Taking control of business	Agreement	185	99
	Neutral	2	1
	Disagreement	0	0
Total		187	100
Confidence in decision making	Agreement	182	98
	Neutral	5	3
	Disagreement	0	0
Total		187	100

4.1.2 Graduation of Micro and Small Enterprises

This results show that enterprises with four or less workers (183, 98%) do not graduated to the next size category of five workers and more. (4, 2%) enterprises do graduate to the next size category.

This indicates that most enterprises that start small continued to be small or decline and eventually close down. The frequency of enterprise graduation is presented in Table 3.

Table 3. Descriptive statistics of graduation of micro and small enterprises

Number of Employees	Enterprises	Percentage
1	51	27
2	71	38
3	50	27
4	11	6
Greater than 5	4	2
Total	187	100

The enterprises with employees' between 1-4 workers are the majority with (98%) while Enterprises with more than five employees are the minority with (2 %). This study is in agreement with the study by Liedholm and Mead (1987) who found that in the segment of enterprises of four and fewer workers only (1%) graduated to the next size category to more than 10 workers.

4.1.3 Psychological Perspective of an Entrepreneurs and Enterprise Graduation

The spearman's rho correlation coefficient of psychological perspective of entrepreneurs and enterprise graduation is presented in Table 4. This study reveals that confidence in decision making had a positive relationship ($r_s = 0.151$, $P < 0.05$) with enterprise graduation. Entrepreneur should have enough self-confidence in demonstrating that they not only believe in themselves but also in the kind of business they are venture or pursuing. The others psychological perspective factors such as, risk bearing, need to achieve, innovator and creativity and locus of control had no any significant relationship on enterprise graduation.

Table 4. Spearman's rho correlation coefficient of psychological perspective of entrepreneurs and enterprise graduation

	Psychological Perspective	Enterprises graduation
	Willing to risk personal assets	
Correlation		0.000
P- value		0.994
	Achievement of business target	
Correlation		0.108
P- value		0.140
	Creating new products and services	
Correlation		0.008
P- value		0.192
	Taking control in business	
Correlation		0.092
P- value		0.210
	Confidence in decision making	
Correlation		0.151*
P- value		0.040

**Denotes correlation is significant at the 0.01 level (2-tailed)
 *Denotes correlation is significant at the 0.05 level (2-tailed)

4.1.4 *Psychological Perspective of an Entrepreneur with Enterprise Graduation*

The psychological perspective of an entrepreneur with enterprise graduation is presented in Table 5. The results indicate that, the confidence of entrepreneurs when conducting their businesses had a positive effect on enterprise graduation ($\beta=19.607$, $P<0.05$). The results indicates that creating of new products had a negative effect on enterprise graduation ($\beta =-2.717$, $P < 0.005$). The respondents showed that (160, 85%) enterprises agreed that they love creating new products and services and making a difference in enterprise continuum. The negative effect on creating new products and services could be due to high cost of advertisement; potential customers would have developed loyalty to the existing products in the market. As (Baron & Shane, 2008) noted that products that ultimately prove to be tremendously successful start out slowly with relatively few users, and only gain popularity later, after the passage of months or even years. The study also reveals that the respondents who agreed were (96, 13%). This study is in agreement with (Mary *et al*, 2009) that those people who start small businesses are fiercely dedicated to their; they further suggested that much time, energy, money and emotion are invested in their businesses. They want to ensure that nothing harms their “baby”. That is, their new business ventures.

Table 5. Ordinal regression on psychological perspective of an entrepreneur with enterprise graduation

Variables	Estimate	Std. Error	Wald	95% Confidence Interval		Sig
				Lower Bound	Upper Bound	
Threshold						
Number of employees=1	12.094	3.550	11.605	5.136	19.052	0.000
Number of employees=2	13.830	3.536	15.300	6.900	20.759	0.000
Number of employees=3	15.742	3.518	20.019	8.846	22.638	0.000
Number of employees=4	17.142	3.533	23.540	10.217	24.067	0.000
Location						
Confidence=1	19.607	1.352	210.404	16.958	22.257	0.000
Confidence=2	19.878	1.311	229.763	17.307	22.448	0.000
New products	-2.717	1.340	4.110	-5.344	-0.090	0.043
Model		-2 log likelihood		Chi-square		
Intercept only	291.763					
Final	272.216		19.546		0.359	
Nagelkerke R ² = 0.687						
Key: 1=SA-strongly Agree, 2=A-Agree, 3=N- Neutral 4=D-Disagree , 5=SD-						

4.2 Psychological Perspective Chi-square Test

In chi-square we are testing the null hypothesis. In this study, the 1st null hypothesis H₀₁ is that there is no statistical significant relationship between the psychological perspective of an entrepreneur and enterprise graduation. Chi-square is the used technique to explore relationship, (Somekh & Lewin, 2004) it is a very unusual statistic because it test two things in one test. It is a test of

independent and of association. First we consider survey data, in this research is from questionnaires and try to find if there is any association between the dependent and independent variable. The first step in interpreting a significant chi-square is to look carefully at the SPSS chi-square out-put. In this study the following are the output of psychological perspective of an entrepreneur and enterprise graduation. Intercept only 291.763, final 272.216 chi-square 19.546 and the significant 0.359 which is $P > 0.05$. Therefore there is no relationship between the psychological perspective of an entrepreneur and enterprise graduation. Thus, the null hypothesis is accepted.

5. Conclusion

The study concludes that, entrepreneurs in the enterprise continuum should have a positive attitude towards what psychological perspective factors can be applied to MSEs in Eldoret Town to graduate to the next level category. The reason why (98%) micro and small enterprises never grow and graduate out of their size level category is simply because entrepreneurs do entrepreneurial activities but they do not have the entrepreneurial attitudes or goals. Reynolds *et.al* (2004) observed that there is a distinction between necessity and opportunity based forms of entrepreneurship. Necessity entrepreneurs are forced into new business creation by unemployment or other economic shocks, while opportunity based entrepreneurs are forced into new business creation by affirmative choice to start a new business, based on the identification of specific business opportunity. This is because the study reveals that the enterprises of four or less workers, only 2% graduate to the next level category of more than 5 workers.

It is notable that even entrepreneurs who have the entrepreneurial attitude and goals, their poverty status can cause them to start businesses as a mean of surviving while trying to preserve dignity within a hostile environment.

5.1 Recommendations

The findings of this study on the effect of entrepreneurs psychological perspective on micro and small enterprises graduation in Eldoret town call for attention in several areas, enumerated below;

1. Entrepreneurs should be encouraged to invest their resources consistently in their businesses to reach a significant standard of living.
2. A survivalist entrepreneur should be motivated through training programmes to be aware that they have potential to grow and graduate.

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