Factors Influencing the Slow Growth of Small and Micro Enterprises, Case of Hair Salons in Kakamega Town

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Abstract

This study sought to determine the clusters of factors that are significant determinants of the slow growth of small and micro enterprises (SMEs) in Kakamega town of Kenya. The case study was beauty salons. Salons provide employment, contribute to entrepreneurship and innovation and foster competitiveness. However, they have continually faced difficulties resulting in slowed growth of the sector. The growth of salons was measured by their lifespan, profits per annum, sales volumes and infrastructural improvements are lower than the national and World bank figure of 60%. There was therefore need to determine the factors influencing their growth in order to enable them continue to offer alternative employment for majority of Kenyans. Guided by the ecological theory the researcher conducted a study through cross-sectional survey design, on a sample of 90 salons selected from a target population of 632 salons in the town between August and November 2014 using questionnaires. The data was analyzed by use of factor analysis and the results presented in tables and figures. The study established that the average growth rate of the salons in Kakamega town is 48.28% which is below the growth rate set by the world and the government of Kenya. Some of the difficulties they face are clustered as monetary, environmental and internal. The study concludes that monetary factors are most critical to the growth of the salons. The study recommends that the government of Kenya to create an enabling financial environment for salons as well as courses on business management. Lastly, the study recommends that further research be conducted to determine the actual effects of these factors on real growth.

Introduction

Background

SMEs are companies whose headcount or turnover falls below certain defined limits and differ from country to country. In Germany the limit is 500 employees, and in Belgium it is 100 [1,2]. The European Union (EU) categorizes companies with fewer than 50 employees as small enterprises, and those with fewer than 250 as medium enterprises [3,4,5]. In the United States small businesses refer to those with less than 100 employees and medium-sized businesses to those with less than 500 employees [5,6]. However, the traditional definition of micro enterprises, by European Union, is those with less than 10 employees [3,5,7,8,9]. SMEs represent 99% of all enterprises in Africa and provide around 65 million jobs [7,10]. They also contribute to entrepreneurship, innovation, and foster competitiveness [11,12] which makes them socially and economically important assets. SMEs in Africa face problems due to market imperfections, difficulties in obtaining capital or credit, and reduced access to new technologies [7]. Therefore, as Parker, Riopelle and Steel, [13]. Point out, support for them must be a matter of national priority. As Pedersen [14], and Perkins and Roemer [15] observe, in a market with no internal frontiers, measures that favor SMEs must be based on common standards to improve their consistency and
effectiveness, and encourage competition. Kibas [5] concurs and adds that this is also true for SMEs in Kenya.

The contributions of SMEs to the Kenyan economy have been recognized for the past three decades [7, 16]. The Government of Kenya (GOK), through several sessional papers and policy documents such as GOK [17, 18, 19] has also acknowledged that SMEs play a crucial role in national development through poverty reduction, employment and wealth creation. Successful stories around the world indicate that one of the efficacious ways of setting a country in motion towards total development is to promote domestic economic improvement through SMEs since they are dynamic engines through which society-wide developmental objectives can be achieved [20]. SMEs make a significant output contribution to GDP [21, 5, 13]. Factors influencing SMEs therefore have a direct bearing on the growth of the whole country. Hence there was need to determine these factors.

Kenyan economy is facing the challenges of unemployment [22], high rates of school drop-out and an increasing number of retrenches [16]. These factors have deepened the levels of poverty and helplessness [5]. But as Coughlin and Ikiara [23] and Daniels et al. [21] point out, SMEs are emerging as a reliable alternative to poverty alleviation, creation of employment and consequently they have become an income guarantee especially among women and the youth. The government of Kenya has also recognized the role of SMEs in socioeconomic development employing about 7.5 million (80%) of the country’s total employment GOK [19]. But it is generally recognized that they face unique challenges since their growth and profitability is low. As a consequence, they have diminished ability to contribute effectively to sustainable development [23, 21]. These factors must be identified and tackled.

According to Hill and Hope and Kalleberg and Leicht [4] the successful growth of SMEs depends on, inter-alia managerial training and experiences of the managers, their education and skills, access to credit, government policies and regulations of the SMEs. Growth of SMEs is determined by their life spans, profits, sales volumes, and infrastructural improvements [7, 3, 8]. According to Hill the management of SMEs must be based on recognized principles of management of effective planning, coordinating, directing and organizing the activities. King and McGrath also add that adequate education and skills are needed to run SMEs just as they are needed to run other organizations. USAID concurs with the fact that access to credit is crucial to the growth of SMEs. Lack of financial credit facilities limits the choice of technology, while undeveloped capital market forces drive entrepreneurs to rely on self-financing or borrowing from individuals at high-cost short-term financing strategies. National policies and regulatory environment also impact directly on technology decisions at the enterprise level and affect the growth of an organization.

Kakamega town is the headquarters of Kakamega County. It is situated In Western Kenya lying about 30 kilometers North of the equator. It is 52 kilometers north of Kisumu, the third largest urban setting in Kenya. It is the second populous county after Nairobi with a population of 1,660,651 (2009 census). The town is a major business hub in western Kenya and a tourist centre known for its indigenous trees in the heart of Kakamega forest. It has local companies such as West Kenya Sugar Industry. Masinde Muliro University is an institution of higher learning in the heart of the town is expected to spur its growth. Kakamega town is projected to have a population of 576,256 by end of 2015, with a growth rate of 2.0% per annum. Life expectancy of the population is 49 years. The city has a Total Fertility Rate (TFR) of 5.8 children per woman. The population is mainly youthful with two thirds (67%) aged below 25 years. Those aged 65 years and above account for 3.4% of the total population. The youthful population has put pressure on the available employment opportunities [19]. This has led to the proliferation of small and micro enterprises (SMEs) as alternative avenues for job creation and employment [16].

There are a variety of SMEs dealing in different goods and services. Salons are a
type of SMEs dealing in hair styling and beauty products. They are mostly frequented by women, and of late they have become popular with men. There are currently 632 salons in Kakamega town. SMEs in Kakamega are an issue of concern because of its central location within the East African region. Yet as compared to the neighboring smaller towns of Kericho and Eldoret, its economy is not robust [7]. GOK supports Abuodha and King and indicates that SMEs in Kakamega are not vibrant. This is an issue of concern especially considering the strategic position of Kakamega in the Eastern Africa.

Objective of Study
The general purpose of this study was to investigate the factors influencing the slow growth of small and micro enterprises, case of hair salons in kakamega town.

The specific objective was to:
- Establish the cluster of factors that are significant determinants of the slow growth of salons in Kakamega town.

Research Hypothesis
This paper focused on addressing the following research hypothesis:

H01: The factors form cluster of factors that are significant determinants of the slow growth of Salons in Kakamega town.

Conceptual Framework
According to Kombo and Tromp a concept is an abstract or general idea inferred or derived from specific instances. Unlike a theory, a concept does not need discussion to be understood. A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation.

A conceptual framework for this study showed factors influencing the slow growth of hair salons in kakamega town which was shown in Figure 1 below which conceptualizes that factors which affect slow growth of salons in Kakamega town which was ascertained through their life spans, profits, sales volumes, and infrastructural improvements.

Literature Review
SMEs should be well planned and managed in order for them to be an effective alternative employment sector.

![Figure 1: Conceptual framework](image-url)

The planning process, ordinarily involves setting goals, implementing, evaluating and taking control over an individual, group or organization. Further, planning entails the projection of sales, as well as determination of the resources needed to achieve these projections. Upon planning, there is a need to implement which is really putting into action all that has been planned. Evaluation is the process of comparing the levels of performance between the projected and the actual.

Informal sector enterprises face the challenge of accessing adequate financing due to several reasons: It may be cultural suspicion on the part of the entrepreneurs on the role of the financing. Sometimes the entrepreneurs lack adequate collateral to access credit from financial institutions. The requirements for accessing financing for the entrepreneur may appear to be too demanding or may have gender biases in the by-laws that lock out female entrepreneurs [12]. The situation however, seems to be changing with the establishment of microfinance institutions. Small borrowers though, remain excluded from bank loans even if they are able to meet the terms of the banks. A lack of a strong financial base makes enterprises within the sector suffer from under-capitalization characterized by a lack of premises, tools and basic equipment [22,23].

The role and function of management is mainly to facilitate, implement, evaluate and provide support to the sector through developing strategies that will enhance enterprise growth. Sheds have been built to shelter the entrepreneurs from the hot sun, sessional papers defining the government strategy have been written in the past and a
positive effort made to help integrate this sector into the mainstream economy [7], [15] identify the role of the government as facilitating the economic systems’ reforms such as revenue collection. The government is further charged with the responsibility of facilitating the provision of vocational training, technology transfer and the development of new technology [24].

The government is further charged with the responsibility of developing and implementing standard rules of procedure in the sector. This will ensure the sector operates, legally, under a regulatory environment just like the formal sector. The informal sector lacks this and operates in absence of benchmarks and quality control regulations. It has benefited a lot from the support of some assisting organizations on facilitating financial capitalization. Other financing agencies have focused on technology transfer through promoting innovation and adoption of appropriate technology. Key in this area is the Intermediate Technology Development Group (ITDG) and Opportunity International [24].

Since the informal sector gained recognition by the ILO in 1972, many donor organizations, NGOs, Churches and Private Sectors have offered support to the sector in varied forms [3]. The ILO, for instance, has focused its efforts towards capacity building of the sector’s entrepreneurship through training promotions. Its training courses emphasize on how to improve business and facilitate entrepreneurship development. The World Bank and government of Kenya’s vocational training programme are directed towards skills-building for the sector’s entrepreneurs. Development agencies have also played the role of market promotion for the sector. The foregoing initiatives have enabled the sector to improve on product quality and reach out to an even wider market.

Research Methodology

This study used cross sectional survey design. According to Oso and Onen [25] and Cochran a survey is a present oriented methodology used to investigate populations by selecting samples to analyze and discover occurrences. A survey generally explains events as they are, as they were, or as they will be [26]. The researcher in this study wanted to describe the factors affecting the growth of Salons in Kakamega, without manipulating variables. The fact that there was no manipulation made survey the ideal design.

The target population comprised 632 Salons in the city (Kakamega Municipal Office, 2009).

The sample consisted of 90 Salons in Kakamega town. The sample size was determined based on the recommendations of Gay and Kathuri and Palls [27]. Gay recommends a sample size of at least 10 % in a survey study. Kathuri and Palls [27] recommends a sample size of at least 100 for major strata. size of 90 was smaller than the 100 recommended by Kathuri and Palls and higher than the 63 recommended by Gay. It was therefore considered representative enough for the study. From each salon, the researcher selected 1 respondent which produced 90 respondents for this study.

This study employed proportionate stratified sampling and purposive sampling techniques to select the individual members of the sample. Stratified sampling is used in heterogeneous populations when there is need to create homogeneous subsets that share similar characteristics [25] as was the case in this study. The salons are mutually exclusively divided into zones, and it was also necessary to capture the characteristics of each zone in this study. These conditions could only be guaranteed under stratified sampling. The use of stratified sampling ensured, as Touliatos and Compton point out, that the Salons are divided into homogeneous strata, and that each stratum was represented in the sample. It also ensured that each subgroup characteristics are accounted for. Proportionate stratified technique was adopted to ensure that Salons were represented in the sample in proportions equivalent to their sizes in the population.

Purposive sampling technique was used to select the owners, or managers of Salons. Purposive is a sampling technique in which the researcher determines, on account of his or her knowledge of the population, who to
include in the sample [25]. The researcher used personal judgment to select only those respondents that best suited the purposes of the study, or those who were believed to have the information relevant to the study [25]. The respondents were handpicked on the basis of their typicality and a sample built that was satisfactory to the needs of the researcher [25]. The manager or owners, by virtue of being the accounting officers of the Salons, were in a better position to describe the factors influencing the growth of Salons than their employees. They were therefore selected on purpose, to ensure that the study captures those typical and useful cases and also to save on resources that would have been spent interviewing cases that do not have the right information.

The study used semi-structured questionnaires to collect data. Oso and Onen [25] advise that the selection of an instrument must be guided by the nature of the data to be collected, the time available and the objectives of the study. For this study, these factors point to a questionnaire.

A questionnaire is a carefully designed instrument consisting of a set of items to which the respondents are expected to react, usually, in writing [25]. It is a self-report instrument used for gathering information about variables of interest in an investigation [27]. Questionnaire was preferred because the study was concerned with views, perceptions and feelings and these variables cannot be directly observed. In addition, the target population of 632 salons that was used in this study is quite large and considering the time within the constraint, and the long distances between data collection points, questionnaire was the ideal tool for collecting data. Questionnaire is also the most suitable tool for survey research [25].

It was therefore considered ideal for this study. Semi-structured questionnaire enabled the researcher to collect both qualitative and quantitative for a fuller explanation of factors affecting growth of salons. The questionnaires sought information on the life span, profits, sales volumes and infrastructural improvements in the Salons.

Results and Discussions

Determinants of the Slow Growth of Salons

The concern of this study was to determine the cluster of factors that are significant determinants of the slow growth of Salons in Kakamega town. This was achieved through testing the hypothesis of no regression effect: that the factors form cluster of factors that are significant determinants of the slow growth of Salons in Kakamega town. This was done through factor analysis and the results in Table 4.1 were obtained.

Since factor analysis accounts for the relationship between variables, the correlation matrix was further examined for evidence of this relationship so as to construct new variables (or factors) based on the interrelationships. This was achieved through the method of principal component method. The results in Table 4.2 below were obtained.

Slow Growth of Salons

![Figure 2: Scree Plot of factors influencing the growth of Salons in Kakamega town](image)

All factors have a standard deviation of 1 and a mean of 0. This gave the total variance for the 12 variables as 12. Eigen values represent the amount of variance between one variable and the rest for instance, the Eigen value for factor one (taxation) is 3.56 out of a total variance of 12, which represents 29.6 % of the total variance. The scree plot of factors and Eigen values was plotted as shown in Figure 2.
Only Eigen values greater than 1 are considered significant. Table 4 agree that only three factors are significant determinants of the growth of salons in Kakamega town.

The study further determined the factor loading to describe the relationship between the variables and the factors. The results of the factors loadings are indicated in table 4.3.

The matrix factor loading or factor matrix indicates that the correlation between credits and factor 1 is 0.76; credits and factor 2 is 0.31 and credits and factor 3 is 0.33. The correlations between other variables and factors are also as indicated.

Further, the factors were rotated to achieve a more interpretable structure since the matrix as presented in Table 3 is not easily interpretable as most variables correlate with more than one factor. The factors were rotated using orthogonal procedure and results of the rotation are shown in Table 4.

The factor loadings of less than 0.35 have been omitted to facilitate interpretation and to provide a clear interpretation of how variables load on other factors. The variables that load on factor 1 relate to monetary factors (taxation, credits, book keeping and capital), while those that load on Factor 2 relate to environment (policies, security, infrastructure, politics and competition). The variables that load on Factor 3 relate on internal matters of the salons (management, personal factors and superstition). Hence the major factors that hinder the growth of salons in Kakamega city are mainly environmental, monetary and internal factors of the salons.

The study further used factor analysis to identify the cluster of factors that influence the growth of the salons in the town. This was necessary since the factors are so many and needed to be grouped into clusters for easy interpretation. Factor analysis was used in grouping the variables into relatively small number of factors in order to represent the relationship between them. Given the wide range of variables, it was necessary to determine if these variables could be more meaningfully represented by a smaller number of variables. In Table 2, all the factors are standardized to a mean of 0 and a standard deviation of 1. Since variance is 1 and 12 variables were identified as indicated in Table 1, the total variance for the set of data is 12. The Eigen values in Table 4.2 represent the amount of variance for each factor. The general convention is that only those factors with Eigen values greater than 1 are meaningful.
When the Scree plot in Figure 2 was plotted of Eigen values versus variables, there was a distinct break between the significant factors and the rest of the factors. The break between the first three factors and other factors is noticeable. Further, only the first three factors have Eigen values greater than 1 and this is confirmed by the scree plot. The three factors represent 55.6 percent of the total variance and are the factors the study is looking for.

Table 3 summarizes the relationships between the variables and the factors by presenting factor loadings. The ideal factor solution would be one where each variable would load on (or correlate with) only one factor, but this was not the case as most variables loaded on more than one factor. The factors were rotated to produce a more easily interpretable structure.

Table 4 indicates the results of orthogonal rotation. The factor matrix loadings of less than 0.35 were ignored to facilitate interpretation. It can be seen from Table 4 that variables that load on Factor 1 relate to monetary matters (taxation, credits, book keeping and capital), while those that load on Factor 2 relate to environment (policies, security, infrastructure, politics and competition). The variables that load on Factor 3 relate to internal matters of the salons (management, personal factors and superstition). Hence the major factors that influence the growth of salons in Kakamega town are mainly monetary, environmental and internal factors of the salons. Thus salons would grow faster when monetary, environmental and internal factors of the salons in the town are supportive.

**Interpretation**

This objective was concerned with the cluster of factors that were significant determinants of the growth of Salons in Kakamega town. The interpretation of data was based on factor extractions of Eigen values and factor loadings. Variables with factor loadings more than 1 were taken as significant. Following an orthogonal rotation, Eigen values of 0.35 and below were rejected as being inadequate to explain communality and as a result, three clusters of factors were obtained. Hence monetary, environmental and internal factors were identified as the cluster of factors affecting the slow growth of salons in Kakamega town.

**Conclusion**

12 variables, which can be grouped into three clusters, affect the growth of the salons. Based on these findings, the study concludes that monetary factors are the most critical to the growth of the salons in this town. This is because they have the highest Eigen values which mean they are the most relevant. The monetary factors account for 63.1% of the variance while environmental and internal factors account for 28.2 % and 8.7 % respectively. [28-30].

**References**


