



FACTORS AFFECTING GROWTH OF SMALL BUSINESS ENTERPRISES

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ABSTRACT: *The aim of this study was to establish the determinants that influence the growth of second-hand products enterprises. Small business enterprises (SBEs) are faced with threat of failure with past statistics indicating that three out of five fail within the first few months. The second-hand products enterprises studied were appraised with respect to the financial features and non-financial features that influence growth. The objective was achieved by employing descriptive research design. The data was analyzed using frequency tables, bar and pie charts and graphs. Estimation of the inferential statistics showing the regression coefficient results and the Pearson chi-square test of relationship was also conducted. The findings established that most of second hand products businesses were experiencing minimal expansion. Inadequate managerial skills, rise in trade competition and constraints in accessing finance were established as significant in influencing the slow growth of these small business enterprises. The study exclusively recommends that public policy makers and stakeholders should team up and provide business training programmes geared at improving management skills to the entrepreneurs and employees of these businesses, and help avail financial assistance which could be channeled through SBEs member groups.*

KEYWORDS: Second Hand Products, Small Business Enterprises, Capital Credit, Management Skills, Trade Competition

INTRODUCTION

The growth of Small Business Enterprises (SBEs) has been of great concern to government policy makers in developing countries and business researchers globally because of realization of their associated positive economic dividends. Hence, they are no longer considered as stepping stone to real enterprises but as a channel of industrial and economic success and as well as strategy or tool of poverty eradication in local and international economies (ILO, 1986; OECD, 2004).

According to Cook and Nixon (2000) and OECD (2004) small business enterprises are able to contribute to over 50 per cent of real gross domestic product (GDP) and over 60 per cent of total employment in industrialized nations. They also account for over 60 per cent GDP and over 70 per cent of aggregate employment opportunities in underdeveloped countries. In Kenya for instance the small scale and micro enterprises constitute 98 per cent of all business in Kenya. Create 30 per cent of the jobs annually as well as contribute 3 percent of the aggregate Gross National Product (GoK, 2005). In employment generation, micro and small scale enterprises have been on the forefront in the absorption of ever increasing supply of young unskilled school leavers and the unemployed in general.



Small scale business enterprises have a number of positive returns, namely: It uses labour intensive technologies and thus has a positive influence on job creation; encouragement of entrepreneurship; they are seen to encourage both process of inter and intra-regional decentralization and it has quick returns. It's with such important benefits that the research focusing on small scale business enterprises becomes key. Small scale enterprises engage in various business activities such as sale of food stuffs, industrial products, tailoring and dress making and second-hand products, among others. By engaging in such diverse activities, they contribute immensely to the country's economic expansion and development. However, despite the substantial role they play, most of SBEs end up being closed down. They suffer from array of problems in their establishment and development, with inadequate finance being the most central other challenges are noted to be: inadequate management skills, rise in market/trade competition, cases of fraud, unwise use of credit, starting other small ventures, negative perception towards SBEs, choose to expand horizontally among others (Amyx, 2005). What factors hinder the expansion of these small business enterprises? This empirical research aims at answering this question.

Objective of the study

The objective of this study is to investigate the dynamic factors that affect growth of second hand products enterprises.

LITERATURE REVIEW

KCA (2009) enumerate the main challenges facing Small Business Enterprises in Kenya. They include political uncertainty, high competition, lack of business skills, unfavourable law, in addition to high taxes which indicate that government regulations are major obstacle to small business enterprises operation (KCA, 2009). Further, Gaedeke (1978) and Mose (2017) established the lack of access to finance as the binding constraints for small and micro private establishments.

Financial Features

Second hand products retailers can acquire business capital from both formal and informal sources. Informal sources are friends and relatives while formal are lending institutions like banks, non- bank financial institutions (NBFIs) and special lending programs. In addition, through trade credit, the supplier allows a short period of time for the payment of products supplied. The actions conserve the retailer working capital. The suppliers are likely to restrict the credit to those business type because of their risk potentiality. The strategy is to buy inventory on credit, sell the goods and collect sales before payment are due, and then pay the bills out of the proceeds. Repeat the process until enterprises profits reduce the need for extensive suppliers' credits (Gaedeke, 1978). Majority of small-scale business enterprises have remained outside the main stream of banking industry, which sees the sector has both risky and costly and hence unimportant market for credit (Oketch, 1993).

Non-Financial Features

The second-hand products businesses have many location options including: malls, hotels, downtown and inner-city sites and neighborhood shopping strip. This requires three aspects



in consideration: Prospective customers-who the operation will serve, trade competition-Entrepreneur must be certain that the population and sales volume are sufficient to support existing store and owners and visibility/accessibility-need to be busy, highly visible location which encourages casual shopping and traffic. According to Bajaj (2005) location should be selected by putting into consideration population statistical, labour force availability, capital income and education level.

Trade competition results in few customers and irregular flow of customers. In a free market economy, competitors work to ensure the efficient and effective opportunity business. Price setting is influenced by the following factors: how your product is competitive to other product, and the life cycle of a product.

Education and business training is vital dynamics that influence positively the growth of small business enterprises. Entrepreneur with large scale stock of human capital in terms of education or vocational training and experience are better placed to adopt their enterprises to constantly changing business environment. Poor business management and accounting practices have hampered the ability of small enterprises to raise finance. By keeping record of the finance, the business owner is able to: Plan for tomorrow, maintain effective control of business and be accurately informed of changing business environment.

Theoretical Framework

Several studies have come up with the models and theories that help in determining the problems that small business enterprises face in their operation. These business growth models include: Theory of profit, Theory of specialization and exchange, Wheel of retailing theory, Life cycle theory, and Natural selection theory, among others.

Theory of profit was developed by Knight. It elaborated that entrepreneurs receive a return for bearing uncertainty. It is not change but uncertainty and the possibility of incorrect expectations which give rise to high profit. The key function is the entrepreneurial function. The job of deciding how various objectives are to be achieved and of predicting what objectives are worth achieving evolves on the entrepreneur, a specialist who is prepared to bear the cost of uncertainty.

Natural selection model: A theory of retail institutional changes that states that retailing institutions that can most effectively adapt to environmental changes are the ones that are most likely to prosper or survive. According to the theory of natural selection, retail stores evolve to meet changes in the macro-environment. The retailers that successfully adapt to technological, social, demographic, legal, economic, and political changes are likely to survive and prosper (Bajaj, 2005).

The life cycle theory aim at explaining the growth of a business enterprise using the biological metaphor of the life-cycle hypothesis. McMahan (1998) life-cycle hypothesis states that business enterprises are born, they grow and finally decline. Sometimes they reawaken, and sometimes they disappear forever.



METHODOLOGY

The study adopted a descriptive research design because the study seeks to answer the why, how and when of the problem under study. Licensed second hand products retailers that operate within the municipality and employing less than five people were selected for this research. The study applied stratified random sampling where a sample of 102 retailers was drawn from the population which was divided into strata's and proportionate samples taken from each stratum randomly. Survey questionnaire was used to collect the data, both qualitative as well as quantitative. Out of the 102 sampled enterprises, 80 were returned completed satisfactorily. This gave an 78.4% successful return rate. The study analysis involved descriptive statistics such as frequencies, mean, mode, median, variance, standard deviation, minimum, maximum, skewness, kurtosis and percentages. The study also incorporated graphs, bar charts and pie charts to present an analysis of the findings summary. Reliability and normality regression tests were applied in order to determine how reliable the data collecting instrument were. Pearson Chi-square test was conducted to determine the existence of association between the variables in the study while regression analyses were conducted to measure the degree of relationship between the target variables. Increases in the number of workers employed was taken to be the dependant variable while business management skills, trade competition and access to finance were taken as explanatory variables.

Model Specification

Regression analysis was conducted to determine the extent to which the target variables in the study influence growth of small business enterprises (Jepchumba & Gisore, 2017). The regression model to be estimated was specified as:

$$y = f(k, s, m)$$

$$y = \beta_0 + \beta_1 k + \beta_2 s + \beta_3 m$$

Where, k - Access to business Finance

m - Trade Competition

s - Availability of Business Management skills

y - growth of small businesses

RESULTS

General Information

Second hand products businesses in Municipality is dominated by women as evidenced by the finding that out of the 80 responses that were received, 54 retailers accounting for 67.5 per cent were female against 26 responses representing 32.5 percent of the total respondents who were male. The highest percentage of the respondents were aged between 18-30 years (47 per cent) and 31-50 years 40 per cent suggesting that owner or employee of second hand products businesses are young population. Most second hand products businesses in



Municipality are fairly young as their age fell below 5 years. Meaning they may have been operational for only 5 years.

Education and Business Vocational Training

The study findings exposed a well educated class of retailers with most of the respondents (60 per cent) having attained secondary school education, about 15 per cent had primary level while 20 retailers accounting for 25 per cent had obtained tertiary education. However, majority of the respondents had not acquired any specific business skills as out of the 80, only 24 (30 per cent) had received training course in business management. This can be attributed to failure by the population to regard second hand products business as a formal business that also require business management skills like any other business enterprises. Poor business management and accounting practices skills have hampered the ability of small business enterprises to raise finance.

Source of Finance

Out of 80 retailers only 21 entrepreneurs were funded by a bank or non-bank institution to start their business enterprises. Remaining respondents got business finance from friends or relatives or by own equity through personal saving or sale of personal properties.

Trade Competition

New imported ready-made products topped the list of main competitors with 72 per cent while competition from other large sized businesses were second with 20 per cent and others shared the remaining percentage. By reducing the market share for the second hand products, imported ready – made products and contribution of large scale industries has affected the overall expansion of the second hand product enterprises.

Major non –financial problems in Business

The major non-financial problem cited by 55 retailers that's 69 per cent was competition and it was the major non-financial problem they face and attributed to low prices charged by their competitors and imported products. Second, which is 18 per cent cited was high license fee that they have to part to the local government. Also 10 per cent that is 8 retailers was high transport cost from port to business areas. Also 3 per cent was lack of store premises to keep their products so they had to carry them home after day sells.

Association between explanatory variables and dependent variable

A Chi square test was performed on the target variables which formed the basis of the research. The test was on the availability of finance to the small enterprises business, business management skills and trade competition. The key assumptions made were that the response variables were explanatory and the variable business growth was dependent on them.

All those who had undergone some business management training save for only 17 had the number of their employees increase in the last five years. This is to say, about 79 per cent of the total number that had trained registered some growth. A Pearson chi-square test was done to investigate if there existed an association between business managing skills and the growth of the small business. It was found that the $p = 0.000$ which is less than 0.05 level of



significance at 6 degree of freedom, meaning that there was a high statistically significant association between the two variables. Therefore, it can be concluded that business managing and accountancy skills influence positively the expansion of the small business enterprises.

A Pearson chi-square test was performed to determine if there was a relationship between level of trade competition and growth of small businesses. It was found that $p = 0.000$ which is less than 0.05 at 4 degree of freedom, meaning that there was a high statistically significant relationship between the two variables. Thus, it can be concluded that level of trade competition influences negatively the growth of the small enterprises. Most of the owner managers interviewed said that price difference was key marketing strategy.

Eighty percent of those who received additional finance had an increase in the number of their employees while only 20 percent of those who received did not register increase in employment. A Pearson chi-square test was done to investigate if there was an association between additional of finance and the growth of the small businesses. It was found that the $p = 0.000$ which was less than 0.05 level of significance at 8 degree of freedom, meaning that there was a high statistically significant relationship between the two variables. Therefore, it can be concluded that availability of finance positively influences the growth of the small business enterprises.

Model Summary Regression Results

The model summary outcome shows the variations that can be explained by the regression function. The model summary results shown in Table 1 shows that adjusted R-Square = 0.428 suggesting that the explanatory variables under study were able to jointly explain 42.8 per cent of the total variation in the growth of the small business enterprises.

Table 1: Model Summary results

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	0.679	0.461	0.428	2.62527

ANOVA Regression Result

The Analysis of Variance (ANOVA) in the model regression analysis helps to investigate whether the regression function is statistically significant or insignificant at 0.05 per cent level. The ANOVA shown in the Table 2 reveals that $\text{sig} = 0.00$ which is greater than 0.05 level of significance, meaning that the regression equation is statistically significant indicating that the model has high explanatory power.

Table 2: ANOVA Regression Results

Model	Sum of Squares	Df	Mean squares	F	Sig
1	294.231	3	98.07	14.230	0.000
	344.602	50	6.892		
	638.833	53			



Regression Analysis Results

Regression results table shows the coefficient values of the extent to which the target variables in the study determine the growth of small business enterprises. The model was regressed and results presented as shown in Table 3.

Table 3: Regression results

Unstandardized Coefficients			Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	13.037	3.221		4.047	0.00
Trade Competition	-5.325	1.377	-0.678	-3.868	0.00
Capital availability	0.083	0.028	0.21	2.98	0.00
Managing Skills	0.173	1.899	0.20	0.091	0.928

$$\text{SBE growth} = 13.037 + 0.83k + 0.173s - 5.325m$$

The result reveal that change in the access to finance by one unit changes the growth of the small business enterprises by 0.83 units, change in the managerial skills by one unit changes the growth of the small business enterprises by 0.173 units and change in the trade competition by one unit decreases the growth of the small business enterprises by 5.325 due to negative influence. The constant in an estimation regression equation is the value of the dependent variable that the explanatory variables take on zero values. It is the autonomous rate of business growth. It refers to growth of the small business enterprises which does not depend on any variable in the regression model. From the regression result, the constant is 13.037. This conforms to study expectation that small business enterprises growth will be positively determined by other variables outside the regression framework model.

CONCLUSION

This study revealed that most second-hand products experienced minimal growth despite their potential of being a crucial tool and strategy with which to reduce poverty, generate new employment, stimulate consumption, increase output and stimulate aggregate economic growth. A majority of the enterprises were found to be still at start-up stage, mainly due to lack of finance while others have disconnected themselves from the expansion path as a result of lack of managerial skills and rise in trade competition. The study therefore recommends as a precursor to improving the second-hand product enterprises in, the national and local government together with other stakeholders should help in training and funding of these enterprises on one hand and put in place policy measures to protect the entrepreneur from unwarranted national and international competition. Further, second hand products retailers can organize themselves and form cooperative, saving and credit societies or groups whose rules do not require collaterals but just need guarantors from the society member to access finance or credit.



Areas for Further Research

Further studies are required to establish if this is the case of urban towns only and if they present unique challenges that are not shared by their rural counterparts.

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