

The effect of funding constraints on the growth of small scale enterprises in soapstone industry of Kenya.

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ABSTRACT

The main objective of this study was to investigate and assess the effect of funding constraints on the growth of small scale enterprises in soapstone industry of Kenya. The problem stems from the lack of access to funding for small scale enterprises hence the need to analyze these small scale enterprises financial requirements against the availability of the funding institutions and the funding constraints (in terms of land title deeds; opening of accounts, an surety). The researcher endeavored to identify the funding constraints for the soapstone industry operators and the possible skills required for one to be a soapstone industry operator. In this regard research design was used to examine and describe the relationship and associations between types of funding and the small scale enterprise development. The targeted population was estimated 1,200 small scale enterprise soapstone operators whose characteristics were grouped into age bracket, type of business and education level. Systematic random sampling procedure was employed to select the respondents to represent the larger population. The instruments used to collect data were the questionnaires, interview schedules and observation forms. Data analysis was done using descriptive statistics and percentages. The findings indicated that the amount earned does not effectively support the growth of soapstone industry. Collateral, bank accounts and high interest rates for loans were found to inhibit access to funds. Soapstone industry was found to contribute to the Kenyan economy through improved infrastructure, employment and tax revenue to the government. The study concluded that the soapstone industry is a major source of income for SMEs and the local community and that the economy is supported by the soapstone industry in foreign exchange earnings.

Based on the above findings the following recommendations were proposed. Government intervention and involvement is required to provide basic institutional structures for capacity building and build linkages with financial institutions to attract funding, there is need for collaboration and participation through partnerships at all stages of the value chains, and there should be a financial strategy implementation plan for the soapstone industry to enhance its production.

Key Words and abbreviations

ROK -Republic of Kenya, GDP - Gross Domestic Product, ILO- International Labour Organization, K-REP- Kenya Rural Enterprises Programme, KWFT – Kenya women finance trust, LDCs – Least developed countries, ROSCAs- Rotating savings and credit associations
SSE – Small scale enterprises, SMEs – Small and medium enterprises,
SACCOS- Savings and credit cooperative societies, MDG - Medium development

INTRODUCTION

1.1 Background to the Problem

According to Parker and Tower (1994) micro enterprises have alien's share of enterprises in Kenya. Entrepreneurs (small scale enterprise operators) have very important role in today's global business environment (Republic of Kenya, 2008). Enterprise is an art or a science of not standing still, whether you are studying as an individual or as a manager with organizational responsibility you are faced with a stark choice you can accept being carried along with the flow and risk being flattened by the juggernaut of change or you can try to take charge or at least influence your own or your organization's dealing through being enterprising (Lowe and Marrion, 2007).

In the western region of Kenya is an area inhabited by an ethnic group known as the Abagusii there is a natural rock found in South Gucha District, about 400km North West of Nairobi and about 140km South East of Kisumu in Kisii county, Kenya. The District which is densely populated is occupied by the Abagusii who are mainly an agricultural community.

According to the 1999 population census, the District was inhabited by 162,182 people (Republic of Kenya, 1999). The population and housing census conducted in 2002 estimated that 57 percentage of the population was living below poverty level (Republic of Kenya, 2002). The Abagusii are residing in a region where the soapstone is easily available and are known to have been mainly involved in the carving industry for a long time.

From the historical Perspective, since the late 19th century, a period spanning of over a century, the local respondents of Tabaka, Gucha South District have the soapstone to produce carvings which they sell locally, nationally and internationally. Before that time and referring back to pre-history times, the soapstone had been used largely for artistic, decorative and functional products as witnessed from the prehistoric remains or artifacts observed on rocks in places like Sameta, Muma, Gotichaki, Nyabigena, Nyatike (Kisii soapstone carvers co-operative society Ltd 2000).

The surrounding communities dig out the rock where it shows outcrops, more so along the mountain or hill ridges. This is the soapstone they use to produce products of art and commercial handicrafts of all sizes, shapes (animal, human and trees etc). Once produced, they are sold to the domestic, regional and export markets. The carvers use locally or traditionally manufactured tools; knowledge, skills and technologies which have been handed over from generation to generation for over hundred years.

Modern stone carving has really brought in a number of SMES from the greater Kisii region, and as far as Ukambani. In the recent past, the Akamba wood carvers, Luo potters, and Luhya weavers and even European artists have come to carve products from the Kisii stone. Consequently this has increased the demand for the Kisii stone, thus generating a high level quantity of stone occupation and its price.

Basically, this localized industry has in turn enabled the creation of employment opportunities for Tabaka people hence improving their living patterns and livelihood. It has also enabled the residents involved in the Kisii stone carving to hire assistants from outside the community, who also benefit from the industry (Ongesa et al, 1988).

The Kisii stone is a soft, very firm grained and dense rock, which is off-white in colour. Reddish, yellowish and grayish varieties are also found. The Kisii stone is comprised of two main minerals: Kaoliwine (30-50%) and sericite (40-50) minor quantities of pyrophyllite (5-20%) are also present. Opaque minerals may constitute 10-20% of the rock and are usually very fine-grained (Pekkala and Mulaha, 1991).

From surface crops, the Kisii stones at Tabaka of the study area occupy an area 500m long from North to South and 400m wide from West to East. The deposit, however, occurs on a ridge with rather steep slopes. The

stone is cut off and covered by a thick layer of quartzite in the middle of the ridge. At the southern end of the deposit, there is one of the bigger Kisii stone quarries in the whole area.

The Kisii stone is currently used mainly on raw material for carving. Some studies (Pekkala and Mulaha, 1991) indicate that Kisii stone could be used as filler material in the paper, paint and plastics industries and it could possibly also be used in the ceramics industry.

1.2 Statement of the Problem

Since the world social summit of Copenhagen (1994), poverty reduction had increasingly been focused by many development agenda. Many international conventions and national governments commitments have been enacted in a number of fora. This is as a result of realization that a larger percentage of the world population is poor; poverty is explained as a condition where people are deprived of their future. It also applies to lack of power and choice and lack of material resources. Other fashions of poverty include an absolute status where an individual or household is unable to afford the basic needs such as food, clothing, housing or health and education services. When put in this way an individual is unable to generate income and has few material possessions.

The international community through the Millennium Development Goals (MDGs) United Nations, 2000) identified poverty reduction as one of the goals. MDG No. 1 is to eradicate extreme poverty and hunger. To achieve this goal, the proportion of the people living in extreme poverty should be halved between 1990 and 2015. The proportion of the people who suffer from hunger should be halved during the same period.

Poverty assessment reports in the Eastern African countries of Uganda, Kenya and Rwanda indicate that a large proportion of the people in the rural areas can be categorized as poor or very poor. A participatory poverty assessment study carried out in seven districts in Kenya in 1996 found that over 80% of the people in all the districts were described as poor, or very poor. The assessment also found that, in extreme poverty, women are forced to engage in all manner of activities to feed their families including prostitution thus increasing their vulnerability to

Sexually transmitted diseases such as HIV/AIDS. The people surveyed indicated that they did not want to rely on government handouts or other donor agencies but need to be empowered to produce what they need. This study focused on the constraints faced by soapstone cottage industries in wealth creation among some local communities in Kisii region. The majority of the population lack necessary information, skills and financial facilities to enable them to utilize the natural wealth existing in the area. In Tabaka area or region SMEs are found busy working on soapstone from which they derive descent housing, fee for their children education, and the basic health care. Harvesting of the soapstone is done manually using the traditional, tools (shovels and pick axes, which waste time and leads to low productivity, hence the need for power driven tools and heavy machinery to gouge out the soapstone and thereby increasing the volume of products. This can only be possible if the SMEs get access to various financial funding institutions and loans given at favorable interest rates.

However, this situation is made worse in that despite the expansion of financial institution in Kenya and the government of Kenya encouraging them to take their services to rural areas in order to promote informal sector in these areas not much has been achieved in soapstone industry. The soapstone is very important to Kenya due to the major role it plays in the socio-economic development of the population of this region and the country as a whole in terms of foreign exchange earnings. Therefore, this research study sought to identify the funding constraints that hinder the growth of small scale enterprises in the soapstone industry.

1.3 General Objective

The purpose of this was to investigate the effect of funding constraints on growth of small scale enterprises in soapstone industry.

1.4 Specific Objectives

The following specific objective guided the study;

To determine the level to which funding affects the growth of soapstone industry.

1.5 Research Questions

The researcher opted to use research questions instead of the hypothesis in this study. Therefore the broad research question was the effects of funding constraints on the growth of small scale enterprises in soapstone industry in Kenya. However, the following specific question gave guidelines to this study;-

What was the effect of funding on the growth of soapstone industry?

1.6 Justification of the Study

The findings of the study are expected to benefit several groups of people;

First, they are to provide the commercial banks, SACCOs, and other financial institutions with a better understanding of the role of soapstone small scale enterprises in the economy of Kenya and more particularly, the community of the region in which the small scale enterprises operate.

Second, the Ministry of Industrialization, the Ministry of Trade and other players in the industry will use the findings of the study to re-evaluate their activities in relation to the soapstone industry development and probably apply the recommendation made by the study to improve their performance in terms of financing, and providing relevant information and training of the small scale enterprise operators in this industry.

Third, the role and impact of the small scale enterprises in soapstone industry will be further emphasized and encouraged. Apart from provision of information and financing, the Ministry of industrialization could provide training and market information for small scale enterprises production and services.

Fourth, the study suggested some solutions to the perennial poor and negative image portrayed about small scale enterprises operators especially when it comes to funding by the commercial banks and other international funders.

Fifth, the study was also to help the small scale enterprises operators who are in the soapstone business to understand and become aware of the necessity of acquiring appropriate skills, knowledge of setting up and transforming the industry from carving and sculpturing to manufacturing processes (value addition).

Sixth, the study supported scholars and academicians by filling the literature gaps on the role and status of the small scale enterprise operators in soapstone industry in the economy of Kenya.

1.6.1 The Scope of the Study

The Kisii stone area lies between longitude 34° 37.6E and 34° 40E, and latitudes 0° 45S and 0° 467' South (figure 1.1). Tabaka area of Gucha South District (herein referred to as the research area) lies about 8km nearly East of Rongo town in South MugirangoChache Location of Gucha South District in Kisii County.

The general elevation of the study area is 1800 MSSL within the Kisii Highlands and featured by hills which are apart due to deep valleys carved by small rivers or streams running through the valleys. It has generally a cool tropical climate with a copious rainfall throughout the year occasioned by the nearby Lake Victoria. The area has wire grass and trees of tropical nature; fertile volcanic soil suitable for cultivation of tropical food and fruits. It is densely populated resulting into less natural trees and woodland.

The study area is easily accessible by gravel and laterite roads which branch off the tarmac road from Kisii to Isebania border town branching at Nyachenge market centre; Kamagambo SDA Training College and at Rongo Town.

The Kisii soapstone is a natural rock found only in Tabaka Gucha South District, Kisii County about 400km North West of Nairobi and 140km North East of Kisumu. It is a white and occasionally iron stained, soft, dense and extremely fine grained. It originates from the volcanic Lake activities converted into the present state

through hydrothermal compression. According to the government of Kenya geological investigation, over 7.8 million tone of the stone deposit are found in this region (Republic of Kenya, 1985). Kisii stone is casually referred to as “Kisii soapstone” because of its softness and off white colour. However, structurally, the stone does not possess the mineral “talc” which would qualify it to have that name, and therefore “Kisii stone” should be the correct name for it (Pekkala and Mulaha, 1991).

Geographically, the Kisii stone is related to the Kisii group which is part of the late geological process of Precambrian Bukobas group. The presence of mudstones and siltstones above the quartz the unit that queries the Kisii stone extents laterally and horizontally.

This study confined itself to the activities of the small scale enterprises in soapstone industry in Kenya and particularly in Tabaka area of Kisii County where the soapstone is found and mined extensively. This covered the areas of Tabaka, Nyabigena, Cotichaki, Nyatike and Sameta. This location of the study is not by design but a dictation by the nature in that this is the only geographical area in the country and the whole world apart from the Inuit community of Alaska in North America, where soapstone is found. The area covers an area of 5km square. The soapstone industry is as old as the inhabitants who live there (over hundred years). The data to be collected will be confined to the soapstone activities in the area but this could be extended to factories and individuals who are processing or manufacturing products from the raw soapstone.

1.5.2 Limitations of the study

The study was confined to the soapstone industry only and it limited itself to Kisii county . The researcher also was faced with the challenge of poor road network while collecting data. However research does not claim perfection as it is always confronted with other limitations inherent in the research methodology and design adopted. This is confirmed by Yetton and Sharma (2001) who observed that the respondents might not always be truthful in their answers to a survey.

1.7 Operational Definition of Terms

1.7.1 An Entrepreneur

This is a person who starts and operates his or her own business and offers solutions to problems and meets needs by supplying a product or service (Lowe & Marriot).

1.7.2 Independent Variable

An independent variable is that variable which is presumed to affect or determine a dependent variable. It can be changed as required, and its values do not represent a problem requiring explanation in an analysis but are taken as given (Dodge, 2003).

1.7.3 Dependent Variable

A dependent variable is what one measures in the experiment and what is affected during the experiment. The dependent variable responds to the independent variables (Dodge, 2003).

1.7.4 Target Population

Target population is defined as those units for which the findings of the survey are meant to generalize. Population in statistics refers to an entire group of individuals, events or objects having a common observable characteristic (Cox, 2010).

LITERATURE REVIEW

2.2 Theoretical Framework

The research study was hinged on various theories of doing business but more particularly on the financing of small scale enterprises (entrepreneurs) in soapstone industry. For some time now, various writers have taken different perspectives on entrepreneurs and their contributions in the economy of any nation or country. Some

have focused on their contributions in the economy of any nation or country. Some on their creativity and innovation, some on the factors of production or resources to add value and some on their propensity for risk and its consummate reward, therefore, for this study the following scholars are considered relevant.

Deakins and feel (2003:3-10) offer a useful analysis of these which is relevant to this study as follows;

Theories of entrepreneurship had their origin in economics. Cantillon and Say are two French social scientists that belonged to a French school of thought known as the “physiocrats.” Cantillon saw entrepreneurs as having a key role in economic development by virtue of their having individual property rights as capitalists. He saw the entrepreneurs as the key group that he recognized as being owners. He saw entrepreneurs acting within a social and community context where they own little tangible capital but nevertheless add value in terms of social and economic development.

Cantillon saw the entrepreneur as someone who consciously makes decision about services allocation, in that they choose to pay a certain price more for a product in order to resell it at an uncertain price, consequently also learning the risks of enterprise (Robin Lowe & Sue Marriot 2007). Say also saw the entrepreneur as a catalyst for economic development, viewing their role as one of weaving together the different factors of production, moving resources from less to more productive areas. He did not see risk or uncertainty as a central issue, or as a force for change. Schumpeter is adamant that entrepreneurs are not risk bearers unless they fund themselves. If someone else invests in a business, then, they carry some of the burden of risk (Lowe & Sue Marriot, 2007).

Other writers agree that entrepreneurs are risk takers, although some like Knight qualify this by saying that the risk, they take are calculated. Knight also distinguishes between risk and uncertainty. The entrepreneurs are willing to go the extra mile and accept the risk of the uninsurable element but expect profit to be their reward for bearing the uncertainty. Wicklam (2004:13) refers to this as a market for risk. Many people are risk averse and are not prepared to take uncalculated risks but are willing to pay a price which allows an element of profit to the entrepreneur who has borne the risk on their behalf (Lowe & Marriot, 2007).

As it is said, not all risk are financial. Even where illness is separate from the entrepreneur and therefore sharing the financial risk, they may not be sharing the same degree of personal risk. For example, the stigma of failure may be felt much more keenly by the entrepreneurs as they may feel that their personal credibility is on the line.

2.2.1 Accelerator theory Is an economic theory that suggests that as demand or income increases in an economy so does the investment made by the firms, furthermore, the theory suggests that when demand levels result in an excess in demand firms;

- Raise prices to cause demand to drop.
- Or increase investment to match demand.

The theory proposes that most companies choose to increase production thus increase their profits, also that such growth attracts more investors which accelerates growth. According to Edgmand (1979) the accelerator theory of investment is based on the fact that a particular amount of capital stock is necessary to produce a given output.

2.3 Past Studies Review

The definition of small scale business varies because the classification of business into large or small is subjective and qualitative judgment, in countries such as United States of America (USA), Britain and Canada, small scale business is defined in terms of annual turnover and the number of employees (Marriot, 2000); defined it as that industry with an annual turnover of two (2) million pounds or less with fewer than 200 paid employees (World Bank, 2006).

In Japan, small scale industry is defined according to the type of industry, paid up capital and number of paid employees (World Bank, 2006). Consequently, small and medium scale enterprises are defined as those in manufacturing with 100 million yen paid up capital and 300 employees (World Bank, 2006).

In Kenya micro enterprises are those with 10 or fewer workers, small enterprises have from 11 to 50 workers; medium enterprises have from 51 to 100 workers, whereas big firms are those employing more than 100 employees (Central Bureau of Statistics, and K-Rep, 1999; GoK 2005, and 2008). Census indicate that micro-enterprises comprises the lion's share of the enterprises in Kenya while there are a few medium enterprises (Parker and Troves, 1940). The above statistical indication includes the SSE in soapstone industry.

2.4. Entrepreneurship through Small scale enterprises

Entrepreneurs play very important role in today's global business environment. Entrepreneurship is commonly linked directly to small and medium Enterprises (SMEs) as well as micro and small enterprises (MSE) however, empirical research on this view is not exhaustive as most small scale business owners do not innovate and are founded on existing ideas and practices. Entrepreneurship brings about innovations and changes in technology that drive economic growth. Research by McCormick (1998); Daniels (1999); international Finance Corporation (2000); Alila (2001) has shown that across developed and emerging as well as developing countries' economies, entrepreneurial activities are significantly associated with growth, job creation, and improvement of standards of living of individuals and institutions referred to as enterprises. Entrepreneurs create wealth by assuming major risks in terms of equity, time and or commitment to providing value or some products and services.

Development of entrepreneurs can be stimulated through a set of supporting institutions and through deliberate innovation actions, which initiate economic development. These initiatives should fully support capable individuals or groups to be entrepreneurial. Therefore, policies and programmes such as Grameen model designed specifically for entrepreneurship promotion can greatly affect supply of entrepreneurs and thus bring economic growth. The need for such programmes to understand an entrepreneur as a mover of economic activities (Schumpeter, 1934); one of high need for achievement (McClelland, 1961); and agent of change (Drunker, 1984); and somebody with ability to identify profit opportunities in any given economy (Kurtzner, 2001) are very useful because of the important role of entrepreneurship in an economy.

2.4.1 Micro and Small Enterprises in Less Developed Countries

The merits of the small scale sector in the context of less developed countries (LDC) are both logically sound and have been empirically proven in literature. Micro-enterprises take advantage of the abundant labour support characteristics to LDC to better maximize the capital labour function. However, micro-enterprises are exceptional form of business which are reflected in their unique fiscal needs. Their special needs are usually classified as micro-loans small scale businesses take on marketed more risk than larger enterprises usually with little collateral. For this reason standard credit sources (Funds from commercial or development banks) are customarily inaccessible to those efficient productive investments together, credit is unavailable altogether, the capital starvation of small scale industries is an economic development tragedy to growth of small and micro enterprises.

Governments and international organizations are now realizing the advantage of providing macro enterprises with credit, financial institutions have been created to alleviate the financial repression of small industries such as the Grameen bank Bangladesh; the concept of small micro enterprises has been known in Kenya since 1972 when the international Labour Organization introduced it (Daniel, 1990). However, it was not until 1990 that the Kenya government formulated ways of recognizing and implementing it in much published nationwide campaign (Gok, 1999). The role of SMEs in Kenya's development growth process is significant, particularly in

the context of generating employment, wealth creation, and income opportunities to thousands of people. According to the Kenya National Baseline survey report (GoK, 1999) SMEs have grown from 910,000 in 1993, to 1-3 million in 1999 and to a forecast of 2.4 million in 2009 contributing roughly 7.8 million Kenya pounds to Gross Domestic Product(GDP).

A recent study in Kenya found that these SMEs have constituted about 18% of Kenya's Gross Domestic Product (GDP) and they account for up to 74.2% of the total employment (Polling, 2007). Further, they are important sources of employment where no alternatives are available. They have created economic opportunities and livelihood for a number of the poor in Kenya. This sector has grown to the extent that micro-finance institutions have acquired the scale to transform themselves into fully fledged Commercial banks (Equity; K-Rep; Family etc). Others include Savings and Credit Cooperative organizations (SACCOs) and cooperative Bank of Kenya.

2.4.2 Cottage industries in the world in relation to home based wealth creation

Cottage industries play a significant role in the development of an economy, as it is in Pakistan that this industry does not require too much financing nor does require imported and highly sophisticated technology (Azid et al, 2005). So the problems like deficit in public finance and balance of payments is not related with the growth and development of these industries. Simultaneously, high percentage female labour force participation in this sector has also been proved in the number of studies. Therefore, this sector of the economy seems to be helpful in the process of reduction of poverty especially in the rural areas. These areas are typically those which require skills that are basically the extension of household skills or which reflect a specific educational and employment experience of women. It has also been observed that women's income of the rural areas of Southern punjab are more likely than their male partners to go towards meeting their family's most of their business income on education of their children rather than reinvesting it in their business. This scene is similar to what is happening at Tabaka. There are more female labour force in soapstone industries than men and much of their business income is spent on domestic requirements and for their children. This will be demonstrated by the research study findings in due course.

A number of efforts are underway in India to enhance existing rural industries with "technology"--they are well positioned to bring long term economic and social changes in the lives of artisans by laying the foundation for a new kind of rural e-commerce based on greater information flows. Production, marketing and delivery mechanisms would be revolutionized, opening up new opportunities. The middleman who take away huge margins would be marginalized and the artisans vulnerability replaced with empowerment (Okator, 2005). Prior to the late 19th Century, cottage industries (Equivalent to SMEs), controlled the economy of Europe. But that changed with the introduction of mass production through the industrial revolution. The mass production model lasted for over a century until the 1970 when it was undermined by the oil shocks which triggered an expected reappraisal of the role and importance of small and medium sized enterprises in the global economy.

Most new small business enterprises are not very attractive prospects for main banks, with their rigid lending regulations, for example, in Kenya, several lending schemes have been developed to address this key sector of the economy but the solution offered so far have been inadequate. However, many of these schemes do not address the SMEs funding challenges in soapstone industry.

The Kisii stone has been traditionally used as a basic material for art and handicrafts from antiquity. Past studies by Republic of Kenya (1985) and Pekkala and Mulaha (1991) concentrated on economic issues of Kisii stone for the production of ceramic insulators, blackboard chalk and filler in the manufacture of paper, paints and

plastics. The research studies did not examine the methods of developing or improving the stone as high potential SME development

Briggs and Srillastalla (1996) and world Bank (1997) note that managers often perceive financial constraints to be the key obstacle to growth of SMEs, liquidity is always lacking and savings are often inadequate to finance major investments. Enterprises thus need to have access to credit lines for purposes of purchasing supplies or covering outstanding credit lines. Commercial Banks will be perceived as non-supportive because of the collateral requirements, high interest rates or where access to special low interest loans is obstructed for example the current youth enterprise Fund issued through the Commercial Banks who impose restrictions.

Personal funds are also other sources, majority of entrepreneurs' ventures start with quite limited funds. The money often comes from the personal savings through mortgaging the entrepreneur's home. Credit card limits have inversed and provide short-term finance for working capital. (Balton and Thomson, 2000: 322) Kaplan (2003:156) explains that many businesses are started by "moonlighting" where an entrepreneur continues in employment while starting the new venture in his or her spare time.

Family and friends are further sources of funding found in the soapstone industry, through which soapstone operators obtain loan so that the friends or family take a small share in the ownership and future returns rather than expecting their money back in the short term.

Probably, the hidden funding of a startup is the sweat equity where the roll up sleeves and work for lower rate of income than the work is worth. In some cases the owners work for nothing to get the business started.

External Funds are also found in the soapstone industry. Debt is a common funding derived usually from the bank in the form a loan and accrues interest. The interest charge is an ongoing expense of the enterprise and the capital must be repaid at the set points on time. Overdrafts are essentially short term bank loans but interest rate can fluctuate and they can be called in at any time. They are useful only for short term needs.

Grants are sometimes available and involve neither interest and capital nor giving an equity stake return, but eligible criteria come to play. Equity is provided by the shareholders including the owner. They expect to get a return on investment or i.e. the profit is retained to fund expansion of the enterprise by having the opportunity to share in the increasing valuable share in the enterprise at some point in the future. Therefore this study was set to investigate and establish the effects of funding constraints on the growth of SSEs in soapstone industry and the influence they have in the development of SSE entrepreneurs.

2.5 Conceptual Framework

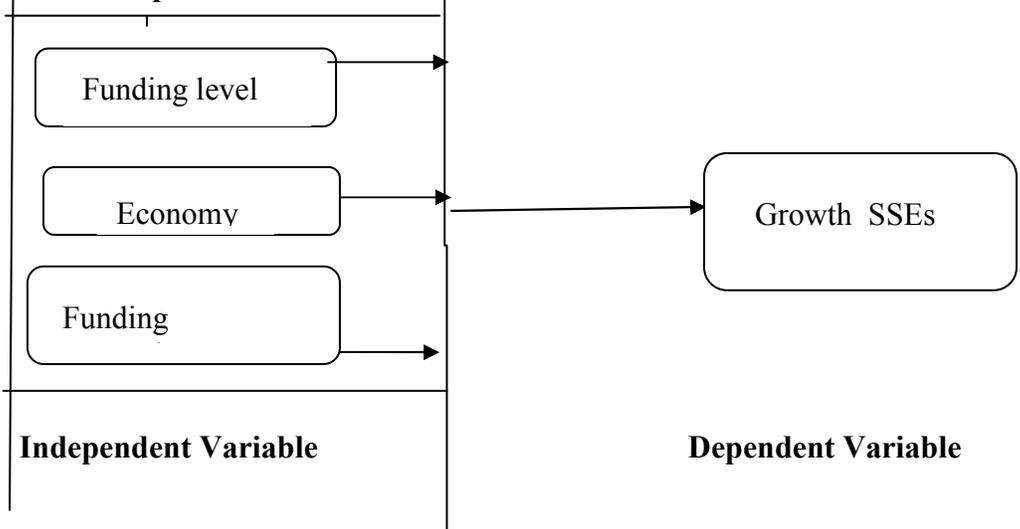


Figure 2.1: Conceptual framework

The conceptual framework above suggests that the level of funding directly or indirectly affects the growth of soapstone industry which in turn influences the economy of the community and the country of Kenya as a whole.

RESEARCH METHODOLOGY

3.1 Introduction

The chapter contains the statements of how and why a specific research design and methodology was used. The study used a SWOT analysis to assess the state of the various funding models available in the soapstone industry. This included the analysis of the strengths, weaknesses, opportunities and threats the soapstone industry operators experience in accessing these funding schemes.

3.2 Research Design

The study adopted the descriptive and mixture of survey and observation to examine selected soapstone industry operators and their accessibility to the funding models in the creation of wealth in this field. The study also applied the triangulation methods, (which refer to the use of more than one approach to the investigation). This made the researcher to apply qualitative approach and quantitative approaches of data collection and analysis. With quantitative approach, a highly structured questionnaire was administered to soapstone operators at Tabaka, Nyatike and Gotichaki. The qualitative approach was used to conduct interviews with government, NGO and financial institutions officials.

Several researches (Bryman, 1995, Rossman& Wilson, 1991) suggest that a combination of quantitative and qualitative research methods:

- a) Enable mutual corroboration of each other via the use of multiple sources of collecting data.
- b) Contextualizes the analysis by providing richer details
- c) Initiates new lines of thinking through attention and surprises, turning ideas around and providing fresh insights.

3.3 Sampling Design

3.3.1 Target Population

The researcher targeted all the small scale enterprises operators based at Tabaka, Gotichaki, Nyatike, Nyabigena soapstone area in Gucha South District, Kenya and in particular where soapstone industrial activities are dominantly carried out. It was envisaged that a total of 1,200 small scale enterprises operators are involved. These people carry out various businesses associated with soapstone ranging from mining, owning quarries, marketing of the products themselves both locally and oversee.

3.3.2 Sample Size and Sampling Technique

Sample of responding SMEs was drawn from the 1200 quarry owners, miners, carvers, transporters, finishers, retailers and wholesalers from the soapstone operators where stratified random sampling technique and where necessary cluster sampling will be used (Mugenda and Mugenda, 2003). The procedure that starts with stratification of items, and then followed by random sampling is called stratified random sampling (Kombo and Tramp, 2006). According to Mugenda and Mugenda (2003), stratified random sampling involves selecting subjects 'in such a way that the existing subgroups in the population are more or less reproduced in the sample'. In this study, the subgroups are the owners of quarries, soapstone carvers and retailers and wholesalers in this industry.

Neuman (2000) argues that, "The main factor considered in determining the sample size is the need to keep it manageable enough. Also this enabled the researcher to derive from it detailed data at an affordable cost in

terms of time, finances and human resource (Mugenda and Mugenda, 2003). The study adopted stratified sampling technique to select suitable sample sizes.

Social science research applies the following formula to determine the sample size.

$$n = \frac{Z^2pq}{d^2} \dots \dots \dots \text{equation (i)}$$

Where:

n = desired sample size, if the target population is greater than 10,000

z = standard normal deviate at the required confidence level

p = proportion in the target population estimated to have characteristics being measured

q = 1-p

d = the level of statistical significance set

If the estimate of the proportion of the target population assumed to have the characteristics of interest is not provided, then 50% should be used. Therefore, with the proportion of the target population being .50, then the z-statistic is 1.96. Consequently, the sample size will be:

$$n = \frac{(1.96)^2 (.50) (.50)}{(.050^2)} = 384$$

If the target population is less than 10,000, the sample size is determined using the following formula;

$$n_f = \frac{n}{1 + n/N} \dots \dots \dots \text{equation (ii)}$$

Where:

n_f = desired sample size when the population is less than 10,000.

n = desired sample size when the population is more than 10,000

N = estimate of the population size.

Therefore, the sample size for the study was:

$$n_f = \frac{384}{1 + 384/1200} = 360$$

By applying simple random sampling the researcher introduced probability sampling wherein each subject had every chance of being selected.

Systematic, stratified and where necessary cluster sampling was used since the population was grouped in age, education, type of business and the geographical location, and then used the systematic sampling to pick the sample required in the study. In this method (systematic sampling) every nth item in the list was selected. Using the above method, the researcher selected a sample of 360 subjects as a sample size for this study.

The SMEs used in this study included quarry owners (20), miners (21), carvers (100); transporters (12); finishers (36); retailers (43); wholesalers (15). In selecting the group stratified random sampling procedures were used. These were stratified into most active/expert and upcoming. For transporters and wholesalers one was selected from each village.

3.4 Data Collection Methods

This is the process of selecting and developing measuring tools and methods appropriate to this research study. Data collection involved a self-administered questionnaire. A self administered questionnaire is desirable because of low cost, adequacy of time for respondents to give responses, it is free of interviewer's biases and a large number of respondents may be reached (Kothari, 2004). All the instruments were tested for validity and reliability.

3.4.1 Research Instruments

These are tools or devices which assisted the researcher to collect the necessary data.

Questionnaires and structured interview guides were the main instruments used in this study. The instruments were developed and adapted to the various selected respondents.

3.5 Data Analysis

Questionnaires and collected qualitative data were edited during and after collection, coded, classified, tabulated, and explored to adjust for any missing information. Transcription, including translations from local language to English was done.

Results from both analyses (quantitative and qualitative) were triangulated to facilitate drawing of strong conclusions and making valid recommendations. The analyzed information was presented.

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the results and discussions.

4.2 The Profile of Respondents

The gender of respondents was sought in this study in order to confirm the gender representation of the respondents. Data regarding the sex of the participants was therefore collected, analyzed and presented in Table 4.1 which shows that majority of the respondents 61% in this research were male and 39% females. This is probably due to male dominance in the industry accompanied by the cultural tag of that soapstone carving was done only by males in the area.

Table 4.1 Gucha South District Demographic Information

District	Division	Location	Male	Female
Gucha South	Nyamarambe 360	South Mugirangochache	55	29
		S/Mugirango Central	77	52
		Nyakembene	88	59
Total 360	360		220	140

4.3 Effect of funding on growth of soapstone industry

The study sought to determine the effect of funding on growth of soapstone industry. Table 4.2 shows a summary of responses about growth of soapstone industry from borrowed money. The study shows that 83% of the respondents stated that borrowed funds support growth of soapstone Industry. The respondents explained that the industry can grow from borrowed funds as long as the interest rates on the loans were affordable. Asked on how respondents spent money borrowed, 88% of the respondents indicated that they used the loan for expanding their businesses. Table 4.3 supported this finding.

Table: 4.2. Growth of soapstone from borrowed funds

Category	Frequency	%
Borrowed funds support Soapstone growth	299	83
Borrowed funds do not support Soapstone growth Undecided	36	10
	25	7
Total	360	100

The study also sought to find out how acquired loan is used and it shows that Loan borrowed was majorly used for expanding soapstone business 88%. Hence the findings showed that more borrowing at low interest rates expanded the soapstone business this should draw the attention of stakeholders in the industry to develop products suitable for this group. Table 4.3 shows how borrowed funds are used.

Table 4.3 Use of Loan

Category	Frequency	Percentage
Expanding business	316	88
Purchase of land	11	3
Pay debts	11	3
Attend training	22	6
Total	360	100

The data from Table 4.4 shows that family size has reasonable effect in marketing and production in the soapstone industry 55% indicated that to a great extent and some extent large family size affects growth of the industry. Another response on further probe on this factor, indicated that some SMEs who are polygamous maybe strained financially thereby not producing an enabling situation for occupation of their soapstone business unless supported by external funding. This issue was further complicated by the factor that young mothers are involved in the performance of domestic chores in their homes.

Table 4.4: The Degree of Effect by the Family size on Production

No. of members	F	% age
Great extent	72	20
Some extent	126	35
Less extent	90	25
Not all	72	20
Total	360	100

4.4: Contribution to accelerator Theory

According to accelerator theory, which forms the basis of this study it is the gap between existing capital stock and the desired capital stock that determines investment. This study had a different approach to investment; the study found that the motivation to investment was the loans borrowed at low interest rates 88%, hence whereas the accelerator theory views motivation to investment from stock gap perspective this study views motivation to investment from loans borrowed at low interest rates.

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The general objective of this study was to investigate the effects of funding constraints on the growth of small scale enterprises in soapstone industry in Kenya. This chapter summarizes the study and makes conclusions based on results. The implications from the findings and areas for further research are also presented. A SWOT analysis of the industry was done.

5.2. The Effect of Funding on the Growth of Soapstone Industry.

The findings indicated that borrowed funds support growth of the soapstone industry and that a large number of the respondents indicated that any borrowed funds are used in expanding the business. Most respondents indicated that most SMEs use technologies and skills handed over from generation to generation through the informal training and self training while only a few had received any formal training. The SMEs expressed the need for further training to improve the skills they were using in the industry, as indicated by Okator, (2005) artisans vulnerability to middlemen should be replaced with empowerment. However over a big percentage indicated that this can be realized if the Government intervened and financial institutions relaxed their requirements when one wanted financial support from them.

The SMEs identified a number of modern tools and equipments that can improve their production effectiveness and efficiency those suggested are tractors, electric drills, and other electrical appliances. All these machineries and equipments need money to be bought hence the need for financial institution to create an enabling environment which will afford SMEs the money for buying these equipments and storage facilities.

The findings on the types of housing and access to social amenities such as electricity, water suggest that players in this industry still face a number of challenges that may affect production and marketing of their products. A sizeable number of participants were undecided about the cultural roles of men marketing their products. This shows that the soapstone community is slowly accepting the changes in gender roles. Another possible issue for this kind of response is that since the players who participated in this study were traditionally masculine (Quarry mining, carving, finishing, decorating, and packaging). There were instances where tradition and gender roles affected women's participation in the soapstone industry.

The income generated from the soap stone business is used for buying personal effects and food, surprisingly only a few SMEs spent the income to improve their skills and expansion of their businesses. Another item on which heavy expenditure of their income is spent is children education. The findings of the study indicated that the income generated from the industry is not sufficient enough to enable soapstone operators invest their proceeds towards improving and growing the soapstone businesses.

5.3 Conclusions

Based on the findings from this study conclusions are made as follows:-

The soapstone industry is a major source of income for SMEs and the resident community. A good number of respondents indicated that large families affected the growth of soapstone business as most of the income goes into meeting basic needs of the people as shown by Fisher and Shiviram (2002). Most of the operators do not have formal education as a large number indicated that they attained only primary education or none at all this means that they may not embrace new technology or take advantage of Information technology in learning and marketing of the soapstone products this acts against the growth and competitiveness of this industry. As seen in page 27 only half of the respondents acquired the necessary skills required in this industry this leaves a big percentage which slows down this industry. A big percentage depended on the soapstone industry as only a few

of the operators are in other salaried employment, thus the industry employs many people (Polling, 2007). The economy is supported by the soapstone industry in terms of foreign exchange earnings therefore supporting the country to realize the vision 2030 and the local economy through improved livelihoods. There are a number of value addition processes in the soapstone industry but it needs financial institutions to create loaning products tailored towards meeting the soapstone industry requirements.

Market access was largely identified as another major constraint affecting the industry. Half of the respondents transport their products by motor cycles and bicycles this may not be cost effective as only small quantities are transported and may suffer from high breakage rate. Only a few respondents plough earnings accrued from sales back into the soapstone industry. There is no policy on soapstone production and this leaves the industry at the mercy of middlemen. Another factor affecting market accessibility is lack of marketing skills such as negotiation and strategic marketing to identify the unique and taste changing needs of the customer. The skills and technology used in the soapstone industry are still very traditional. Potential for innovation has not been fully exploited. Overall, financing facilitation is very important and needs to be injected into the soapstone industry in order to provide development and growth of soapstone industry.

5.4 Recommendations

As seen in page 25 where a big percentage indicate that borrowed funds support the growth of business in the soapstone industry, I recommend that there is need for tailor made loaning products for the SMEs in the soapstone industry to reduce funding constraints and make it possible for the operators to gain access to funds to grow this industry. As seen in page 27 where a majority of operators do not have formal education I recommend that training workshops be organized by the government and other stakeholders to boost the potential of the players involved in the industry. If this is done, it is expected to enhance innovation and growth. Government interventions and involvement is required in order to provide basic institutional structures for capacity building and build linkages with the financial institutions to attract funding. Improvement on technological advancement, training, financial institutions, cooperatives and proceeds from tax revenues can go a long way to improve the economy, this will be through employment creation and service provision as envisioned in the vision 2030.

There is also need for collaborative participation through partnerships at all stages of the value chains. Innovations from higher institutions of learning need to be incorporated in the soapstone industry to enhance knowledge sharing and boost innovation

As seen in page 29 technological factors affect production and marketing of soapstone products, I therefore recommend strongly a financial strategy implementation plan for the soapstone industry to enhance the production effectiveness and efficiency and to reduce wastage. This recommendation should act and remain a benchmark and plan in the next step or phase of the research and steps of the strategy implementation as proposed by lyson and Earrington (2007) summarized here:-

The study proposes the following as the strategy implementation plan for enhancing value addition in soapstone industry:-

Have a strategic overview of the soapstone industry value chains. Install innovation as a particular element in soapstone industry value chain process.

Adapt a business approach in connection with the best value principle for all innovation decisions. Develop scope for use of ICT as an enabler in soapstone industry value chain improvement project

Improve communication with the stakeholders at community and household levels. Ensure availability of appropriate training and guidance to all stakeholders in the soapstone industry undertake innovation risk analysis; develop training programs in relevant areas of expertise including human resources management,

marketing, its and innovations by buying in expertise as required. Ensuring all stakeholders are treated equally and fairly in initiating innovations at various stages of development.

For this industry to keep focused on the economic pillar of vision 2030 in terms of value addition it must seek the intimations of the financial institutions to relax the financing requirements. There should be government deliberate interventions to stimulate the growth of this industry which can create jobs, reduce poverty and improve income distribution. With such government interventions, under the economic pillar of vision 2030 an achievement of 10 percent per annum growth in this industry can be envisioned. The industry needs to partner with such organizations such as Kenya industrial Estate which will create an enabling environment for possible value addition projects.

5.5 Suggestions for Further Research

The study found that funding leads to growth of firms. However, growth comes with a number of challenges and hence a study needs to be carried on the environmental impact of soapstone business on the community.

A study needs to be carried out on how financiers screen their clients for financing and the effects it has on business.

Research also needs to be done on how strategic interventions of Kenya Industrial Estate can give support for possible value addition in the soapstone industry.

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