SOCIAL-ECONOMIC FACTORS AND THEIR EFFECT ON RURAL BASED ENTERPRISES IN KENYA

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ABSTRACT
A successful rural enterprise is no doubt, the consummate business that must be pursued by all in Kenya. It is evident that nearly all rural enterprises have the opportunity to control their own destiny. Success is obviously not a guaranteed, but none is a failure. Some of the major causes of poor performance are poor planning; lack of experience, e.t.c. Rural enterprises should have strong business plan. An important part of this plan should be an exit strategy in case the business runs into problems. Rural circumstances are changing: development thinking is changing; and rural development policy needs to keep up; if aid for rural development is to be re-established on growth path, then it will be within the wider aid context, dominated by ideas about the comprehensive development framework, poverty reduction strategy papers and SECTOR WIDE approaches. Key features of the CDF and PRSPs are holistic approach, ownership, and partnership and result orientation.

Key words: Social-Economic Factors, Gross Domestic Product, Rural-Based Enterprises

INTRODUCTION
According to Baseline survey (1999), the government of Kenya is pursuing national development strategy that seeks to instill rapid and sustainable economic growth and reduce the high incidence of poverty. The strategy is to be implemented by creating competitive market conditions for private and rural sectors. The growth in numbers of rural SMEs and people employed by them has been achieved at considerable cost in terms of small business failure. The employment Gazette (1999, 2007) also noted that every year a large number of businesses are borne in our economy and almost equally large numbers die due to various problems such as poor business concept, poor market identification, competition and failure by the proprietors to monitor their businesses at different stages of development, and more importantly belief that social factors also play a huge role in causing the failure.

Naffziger (1997) suggested that economic growth rate may be associated more strongly with the predominance of what he called high level manpower than with the growth of capital, for those who can carry change mentally to fruition. Therefore Boreholes (1978) concluded that rural entrepreneurs have “an innovation typology characterized by modernity, the utilization of medium risk, conscious planning and long run profit maximization supported throughout a behavioral pattern of achievement motivation”.

Krizner (1979) viewed entrepreneur as someone involved primarily in information dissemination and discovery because of their location within the networks of kinship. The age role provided them with power to initiate or influence projects. They are also alert to opportunities such that entrepreneurial knowledge is a verified abstract kind of knowledge – the knowledge of where to obtain information (or other resources) and to deploy it.

Belasco (1980) says that the entrepreneur does not require prior ownership or resources, but merely the ability to gain access to the means of production and to produce and retain higher than that which must be paid to the owner. He also noted that entrepreneurs have the ability to substitute more dynamic for static-
mobility systems or replace traditional child – rearing practices with socialization that stressed ‘self-reliance and achievement training’.

The entrepreneur as individual approach has led to grotesque underestimates of levels of innovation skills, risks taking and indigenous knowledge, but it has also raised the issue of the entrepreneur as opportunity taker. The entrepreneur may be a broker, controlling networks of relationships between different social levels. Long (1977) argues that the entrepreneur is someone who recognizes the discrepancies of evaluation that exists in a situation and who constructs “bridging transaction” so that he might exploit them.

**Statement of the Problem**

Earlier studies by Shapero (1982) also did find a high correlation between increases in new ventures and rising unemployment. This trend hinders growth of enterprises hence there are no jobs created, leading to increasing rates of unemployment, poverty and poor standards of living all culminating to low economic development of the country.

The failure rate is a serious problem and is compounded over by the fact that over 50% of money used to initiate these businesses is generated from private sources such as personal and family savings. This creates psychological problems for the people whose businesses have failed and also affects members of the extended family. In spite of these facts, self-employment continues to rank high as a career choice by many.

However it is also important to note that business opportunity exists within certain environments. Hostile environment will kill any business opportunity hence it is very important for any aspiring entrepreneur to evaluate environmental factors before starting a business (Wickman 2006).

According to Nteere (2010), factors to be considered include; economic factors such as infrastructure, market, price structure, cultural values, competition, and incentives while social factors include networking, family obligations, culture, fear of the supernatural and so on.

Nteere (2012) contends that the important components of internal environment include, communication network, organisation structure objectives, policies, rules and ability of management team; Personal aspects which include labour relations, recruitment practices, training programs, performance appraisal systems, incentive systems, labour turnover; marketing aspects which include market segmentation, product strategy, pricing.

Important to note also is that rural enterprises operate in different kinds of rural areas. Siddle et.al. (1990) classifies the rural into peri –urban and the remote rural and notes the fact that constraints and opportunities are markedly different and require different strategies.

Therefore this paper explores the social economic factors and their influence on the performance of rural based micro and small enterprises in Kenya.

**REVIEW OF LITERATURE**

Kydd Dorward and Stocks (1995) confirmed that rural areas are more integrated into the world economy, as a result of both liberalization and improved infrastructure. Worldwide trade has grown twice as fast as the GDP for several decades and the rate seems to be increasing. Rural producers including small –scale producers are increasingly involved in global commodity chains.

The geography and demographics of rural poverty largely reflect the Africanisation and arguably feminization of poverty more generally. A notable feature, however is the concentration of rural poverty in low potential areas; perhaps two thirds of the rural poor live in areas of low agro –ecological potential and/or poor communications. Conflict is also a regular feature of rural life in many areas. The economic growth survey indicates that about 20% of Africans may be exposed to conflict in a given year (Farrington, Wiggins 1999).

According to Stansworth & Kauffman (1996, 2007) public perceptions of the small business have shifted in recent times from the extremes of neglect and ignorance to hype and over expectation. In the 1950s and 1960s, small rural firms were written off as out of date form of economic activity which led to rural – urban migration. The Belton report (1971) committee underpinned the fact that rural small and medium size enterprises (SMEs) could be extremely efficient for the fact that they have the advantages of the
commitment of their owner managers, plus their abilities in certain circumstances which they use to better exploit business opportunities. Rural firms are now heralded as leaders in providing employment and growth in restructuring of advanced economies.

This paper considers factors in the business environment which determine the performance of rural based micro and small enterprises particularly in Kenya—but which are to some extent beyond the control of owner managers. It is a combination of these less controllable external factors together with the more controllable, internal factors, arising from personal attributes and skills of the owner manager, which determine the success or failure of rural business.

The most significant feature of rural enterprises is their smallness in size and high rate of failure, limited capital, sole proprietorship etc. Irwin (1990) also called the external factors as macro-environment. This consists of factors, which tend to have an impact on all firms nationally and sometimes internationally. The study includes that political and regulatory factors, such as levels of taxation, health and safety regulations, economic conditions such as the rate of inflation or levels of unemployment; Social and demographic influences such as age profile of the population and; Technological changes e.g. information handling and communications have a huge impact.

The micro-environment refers to more local factors which influence particular firms and it includes; local socio-economic conditions, such as the relative prosperity and population profile of a specific catchment area, the market development of a particular sector or industry; the competitive environment and the customer needs and the structure of demand for individual product and services.

These factors are obviously dynamic, and their impact changes over time. They do not necessarily apply in the same way to new ventures.

Whatever the political orientation, several interlinking factors have influenced the performance of rural businesses. Some of the influences on rural enterprise performance are divided into internal and external factors. An insight into how owner–manager views these external factors and how their perceptions shift with changes in the micro–environment, is provided by the small business quarterly survey carried out by the Small Business Research Trust. This team canvasses the opinions by a panel of small business owners on the problems they face. Issues listed include interest rates, cash flow payments just to mention but a few. According to (Texas Economic Development, n.d), changes to the business environment are reflected in how important these issues are perceived to be. In the 1980s when the Kenyan economy was booming and unemployment falling, the availability of premises and skilled employees became key problems.

At the end of 1990, interest rates were seen as the single biggest issue, followed by cash flow and late payments with low turnover in third place. By the end of 1991, the effects of the recession and lowering of interest rates were reflected in a shift in the order as low turnover became the largest problem with cash flow and late payments in second place. Whatever the business environment, it seemed to create problems and opportunities for the small firm.

Lack of resources and market power makes rural enterprises particularly vulnerable to these problems. Those with least resources and market- for instance the very young and the very small businesses- have least defense against changes in the business environment unlike their urban peers.

Social- Factors

According to Graeme (1990) the difficulties and weaknesses experienced by informal rural sector micro entrepreneurs are functions of not only their operating environment, and particularly business skills, experiences, and competencies, but also of a range of cultural norms, values and practices embedded in business relations. This is a very complex dimension to enterprise management, which varies across location setting and evolves according to historical circumstances.

Graeme argues that two themes that come up repeatedly in this research are:

i. The impact of the family

ii. The supernatural or enterprise management

The research underlined the fact that the extended family system affected the way they did business, with a nearly equal number able to identify both positive and negative impacts.

The following are some of the socio-economic activities and their effects on rural enterprises.
The family obligations
The negative aspects typically attributed to the extended family system center on the observation that once an entrepreneur is seen to be relatively successful, he or she becomes the focus of unsustainable family demands for cash, free products, employment, hospital bills, school fees, etc. These obligations will retard enterprise growth. This has made many owner-managers to conceal their wealth through various strategies for instance having more than one moderately performing enterprise rather than one relatively big or successful one. Shifting the surplus funds between enterprise activities or vice versa.

Fear or belief in Africa chemistry/supernatural
Most entrepreneurs’ premises often appear so rundown and threadbare which may not always be a question of poverty. The study carried out in Kenya and Malawi showed that there was a feeling that some may resent success and casting of the ‘evil’ eye which could bring misfortune and accidents to the subject of this malign force. Mbitho (1990) emphasizes the fact that the supernatural, the ancestors, the African cultures, spirit, traditional medicines, superstitions etc should not be ignored e.g. in Africa cultures, people who dominate fishing believe that sea gods walk on Thursdays; they therefore refuse to fish on this day, with the obvious effect that this has on all enterprises related to fish.

The weight of culture
Cultural effects weigh heavily on juniors and women. Juniors were not usually expected to be innovative or take on responsibility. Therefore, there would be no owner manager who would delegate responsibilities to women.

Capital shortages and managerial shortcoming
The central ingredients to enterprise development are access to credit, training and markets. However, an enterprise runs the risk of being ineffective or even detrimental due to poor managerial skills. As far as Slakes (1995) is concerned, commentators have been critical of rural firm management for its use of financial resources. Falk (1980) emphasizes on the fact that rural enterprises often lack relevant information seeking behaviour.

MSE Baseline survey (1999) noted that Kenya had 150 organizations with credit programs for SMEs while majority of rural enterprise operate without any form of credit.

The purchase of land with enterprise profit is a major attraction
This is the lure of rural lives and real estate. Enterprise is often seen as, unlike land and real estate which may be perceived as a more secure though sometimes less profitable form of investment and their ownership is likely to bestow more kudos or status than the ownership of enterprise.

Ake (1990) emphasizes the fact that land and real estate do not normally lead to income generation. Therefore is likely to be a major attraction for and a clamp on enterprise growth.

Employing more people without regard for profitability
Drucker (1985), acknowledged that new climate by welcoming the shift from a managerial to an entrepreneurial economy whose growth was being fuelled by small rural enterprise. Most owner managers would employ many workers so as to increase their status without regard to profit. This is coupled with lack of management skills.

On the other hand entrepreneur appeared to have many interests which he struggled to balance: Graeme (1990) recorded that different groups based on tribe, gender or educational status may be expected to operate certain types of enterprises and not others as a way of encouraging the adoption of particular enterprise activities on the basis of reasons other than strictly economic ones. There are believes that discourage the spirit of the individual, limits the growth and may be determined by the desire to avoid ‘growing into formality’ and the administrative and financial burdens. This may be what that implies.

Employing Trusted Kinsman
Few rural informal sectors genuinely employ many people on a constant full time basis. When they do, the labour is usually apprenticeship or family labour and there is often a large element of employment and low productivity which is often accepted and tolerated by entrepreneurs(among other reasons, this is partly due to the relatively low cost of labour and the status enhancing qualities of employing people).

Dia (1991) emphasizes the importance of employment of kin over non kin, close kin over distant kin, or fellow ethnics over outsiders to be constructed as valid if it implies that the entrepreneur is choosing
closer people because the closer the degree of social cohesion, the greater the degree of trust and the lower the transaction costs of protection contracts. Thus, these employment practices become an alternative to formal contract law and vertically integrated firm. Other socio-economic factors which challenge rural enterprises can be broadly classified into, marketing, management and financial.

A lack of experience in any of these categories can lead to catastrophic failure. Many rural entrepreneurs underestimate the amount of effort that must be exerted in a successful enterprise. Bradley and Scoundrels (1985) emphasize the fact that owners are responsible for marketing activities including not only advertising but marketing research, customer feedback, selection of location, awareness of competitors and changes in consumer trends.

Poor record keeping
Don Bradley (1996) says that keeping good detailed records of sales, expenses and debts alone is critical for survival of any business. This is especially true for volatile small businesses. How can any financial planning be done when there is no understanding of cash on hand, outstanding credits and current expenses? Bradley III (1996) concludes that poor records keeping makes it virtually impossible for owners to know the financial status of their businesses. The fact remains that many small firm owners do not want to complete this menial task, regardless of its importance.

Hale (2004) says that the above leads to poor cash flow, which causes a business to fall behind on wage payment, rent and insurance and low payments. Natural disasters
Though not common, natural disasters can play a role in small business failures. Disaster can be classified as anything naturally occurring in the environment including death (Bradley and Rubach, 2000). According to Bailey (2003) the loss of key person through illness or death, or a key person being lured away from the small businesses due to lack of financial compensation such as salary could cause a lot of pain to the business.

However, small business SWOT analysis as per Kotler (1984) as shown in the figure below can help forestall some of the pertinent issues.

<table>
<thead>
<tr>
<th>STRENGTH</th>
<th>OPPORTUNITIES</th>
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<tbody>
<tr>
<td>Large market easily penetrated</td>
<td>Can benefit farm product life cycles</td>
</tr>
<tr>
<td>Can select and exploit segments unattractive to big businesses</td>
<td>Will reveal markets discarded or unknown to big businesses</td>
</tr>
<tr>
<td>Can respond quickly to market changes</td>
<td>Can move rapidly from segment to segment</td>
</tr>
<tr>
<td>Can offer specialized product or services</td>
<td>Can respond to needs quickly</td>
</tr>
<tr>
<td>WEAKNESS</td>
<td>THREATS</td>
</tr>
<tr>
<td>Resources limit market coverage</td>
<td>Strengthens competitions in market segment</td>
</tr>
<tr>
<td>Resources selection of segment of number of segments</td>
<td>Susceptible to sudden market changes</td>
</tr>
<tr>
<td>Limited time available for marketing factor</td>
<td>Statistic markets may have fiercer competition</td>
</tr>
<tr>
<td>Poor source of data</td>
<td>This can curtail decision making</td>
</tr>
</tbody>
</table>

Entrepreneurial Opportunities in the Rural Areas
Entrepreneurial opportunities have also emerged with the introduction of Green Revolution Technology. The growth of private agriculture enterprise is beginning to provide farmers with externally supplied devices for irrigation, ploughing etc. There has also been an expansion of opportunities for generating increased profits by strengthening control over several related stages of productions, procurement, processing and marketing and linking them through interlocked markets.

There are three main types of opportunities encountered in farmers, artisans and traders

i. Those who invest in technology e.g. tractors primarily to assist their own cultivation efforts and then finding that the capacity of the technology is underutilized, decide to rent out or part of the surplus to other farmers, thereby providing an agricultural service as economic activity
ii. Those who involve in agricultural business of one sort e.g. agricultural produce trading more between markets and linking them, thereby creating more effective conditions of control for maximizing profits by setting up interlocked market, e.g. linking the sale of maize seeds and fertilizers to an agreement to buy back the crop from the farmers

iii. Those who, by virtue of specialized training, or by proximity to certain formal or informal training resources, are motivated either to use this expertise directly, or adopt it in a newly perceived need in order to start a business e.g. equipment repair works

Therefore, an individual with proximity, alertness or connections to resources such as technology owners or information may be able to establish a new business. Access to entrepreneurial opportunities is no longer based solely upon the translation of landownership into economic power, as it has been for generations. Access to non-land forms of human capital, such as informal skills, contact and knowledge, can offer opportunities for well – networked individual to set up enterprises and become involved in agricultural production through new forms of activities.

Table 2: The changing context for rural development

<table>
<thead>
<tr>
<th>Changing Context</th>
<th>Illustrative Data</th>
</tr>
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<tbody>
<tr>
<td>Diversification is taking place in rural incomes</td>
<td>Studies for Africa show a range of 15% to 93% reliance on non – farm income (WDR)</td>
</tr>
<tr>
<td>More of the poor are in low potential areas</td>
<td>66% of rural poor live in less favored areas(IFPRI)</td>
</tr>
<tr>
<td>There are growing environmental concerns</td>
<td>An estimated loss of 2 billion hectares of land through degradation since 1945. (Conway)</td>
</tr>
<tr>
<td>The geographical distribution of poverty and human (under) development is changing</td>
<td>23% of Africans fail to reach the age of 40, compared to only 8% of East Asians (UNDP)</td>
</tr>
<tr>
<td>HIV/AIDS is having dramatic impact in Sub Saharan Africa</td>
<td>Life expectancy has fallen from nine to six years respectively in Botswana and Zambia. (UN)</td>
</tr>
<tr>
<td>The share of the population in rural areas is falling</td>
<td>BY 2035, 50% of the world’s population will be in cities. (IFRPI)</td>
</tr>
<tr>
<td>The importance of agriculture is declining</td>
<td>Agriculture will account for less than 10% of GDP in developing countries by 2020 (IFPRI)</td>
</tr>
<tr>
<td>Urbanization and rising incomes are changing the patterns of demand for food</td>
<td>By 2020 milk demand will have increased by 15 times (IFRPI)</td>
</tr>
<tr>
<td>The world economy is increasingly globalized-borderless world</td>
<td>Internal trade has grown two to three times as fast global value added in the last decade (WB)</td>
</tr>
<tr>
<td>International trade expansion is not uniform</td>
<td>Africa’s share of world exports fell from 11% in 1960 to 4% in 1998 (WB)</td>
</tr>
<tr>
<td>Access to FDI in uneven</td>
<td>FDI for Africa only 1.9% of GDP (WB)</td>
</tr>
<tr>
<td>Increasing liberalization, though slow in agriculture</td>
<td>Effective protection has fallen from 12% in the 1960’s to 3% in 1990’s (WB)</td>
</tr>
</tbody>
</table>

Approaches to rural development

Thinking about rural development has evolved over years, in a symbolic relationship with thinking about rural development, through the green revolution, to integrate rural development, and from the mid 1980’s onwards, increasing attention to sustainable livelihood as a route to poverty reduction.

Emerging Issues in Rural Development

1. The paradox: the majority of the poor still live in rural areas, and yet donor support for agriculture and other rural development has slumped.
2. A diminishing urban – rural divide: rural and urban livelihoods are inter-dependent, and there is rarely a sharp geographical divide between rural and peri-urban. Rural development strategies must take account of urban links and contexts.
3. Diversified livelihoods: there are few full – time farmers now, as households pursue multi – spatial livelihoods; support to non – farm rural economy and to migration are as important as agricultural support.
4. Small – holder farming in less – favored areas face new challenges: more households consist of part – time farmers, work smaller plots as are headed by the elderly, young and women, so face severe credit and input constrains; access to subsidies and extension services has diminished; market changes increase the need for specialist techniques, quality control, information – intensive technologies and market involving high transaction costs – factors which provide larger farms with economies of scale. Targeted assistance is needed where small scale farming can be competitive; otherwise small farmers need good exits from farming.

5. Technological targeting: production increases based on the seed – fertilizer model of the green revolution have slowed. New technologies are likely to be more and regional specific, and information – intensive. Technical change is biased against the poor. Policies to target technologies need to be location specific. Public intervention is particularly required in developing technologies and information channels appropriate to poor farmers.

6. Rethinking institutional capacity and governance: many recommended measures for rural development cannot be effective without significant capacity building and institutional support. In some areas, decentralization should be promoted to reinforce positive trends for increased accountability. But in some areas, state are dysfunctional (i.e conflict zones), or crippled (high HIV incidences), and second best solution would be more effective than attempts at business as usual.

7. Growing divergence between low and high potential areas: less favored (low potential) areas have very different needs to (high potential) areas where modernization is already underway. They generally still need agriculture – based developments, are list likely to gain from globalization opportunities, and will generate lower returns because of their inherent disadvantages (remoteness, poor soils e.t.c) policy must adopt to context.

8. HIV/AIDS: AIDS is a changing household structure, social relations and economic capacity. In 16 countries more than one tenth of population is HIV – infected. Services and policies must adjust to accommodate new household structures, the growing number of adolescent and elderly household heads, the growing shortage of productive labour, and decreased skills and experience within rural institutions and private companies.

9. Rural risk and vulnerability: the rural poor face new risks due to increasing natural disasters and rapid economic change. External support for risk – mitigation and coping strategies is generally insufficient. Public and private roles in supporting insurance and risk – coping need to be strengthened, which in turn depends on the fiscal burden being addressed.

10. Preventing and managing conflicts: conflict has a debilitating impact on rural livelihoods, and increasing levels of conflict threaten achievement of poverty reduction targets. Donor will need to escape from the conceptual and programmatic constrains of linear approach to relief and development.

11. Aid modalities: as a topic, rural development fits well with ideas about the comprehensive development framework and with poverty reduction strategy papers. However, it does not fit well with sector wide approaches which are hard to implement in the agriculture sector. There will be real problems in reaching the rural poor in poorly performing countries.

CONCLUSIONS
A successful rural enterprise is therefore no doubt, the consummate business that must be a jack of all trades. It is evident that nearly all rural enterprises have the opportunity to control their own destiny. Success is obviously not guaranteed, but none is a failure. A well rounded business person who has carefully planned and prepared with a clear vision of who and what the business is, will have an excellent opportunity for success.

Some of the major causes of poor performance are poor planning; lack of experience, e.t.c. Rural enterprises should have strong business plan. An important part of this plan should be an exit strategy in case the business runs into problems. Even though they are their own bosses, the customer will still control a lot of entrepreneur’s life and how his time is spent. Therefore, self-discipline becomes a very important element of being successful in owning a rural business.
Rural circumstances are changing: development thinking is changing; and rural development policy needs to keep up; if aid for rural development is to be re-established on growth path, then it will be within the wider aid context, dominated by ideas about the comprehensive development framework, poverty reduction strategy papers and sector wide approaches. Key features of the CDF and PRSPs are holistic approach, ownership, and partnership and result orientation.

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