

Factors Affecting the Ability to Start Business among Post-Employed Persons in Remote Environments: The Case of Tata Chemicals Limited, Kenya

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ABSTRACT

The purpose of this study was to investigate the factors affecting post-employed persons starting businesses in a remote environment. The objectives of the study were: to determine the effect of lack of requisite experience on post-employed persons starting business in a remote environment; to determine the effect of redundancy on post-employed persons starting business in a remote environment; to determine the effect of age on post-employed persons starting business in a remote environment and; to determine the effect of lack of access to capital on post-employed persons starting business in a remote environment. There are 87 employees of Tata Chemicals limited living in the premises of the company. The researchers used a simple random sampling method in the study. Herein, the study sampled 71 persons. Results from the study findings were then analyzed through the use of descriptive statistics. The findings obtained show that many post-employed persons decide to look for an alternative form of income. In other cases, employees who are declared redundant and laid off from their jobs find themselves lacking the psychological preparedness to start businesses. Employees who leave their job may also be faced with age-related constraints. In this case, they may lack the competitive edge need to ensure the success of a business. Lastly, the study concludes that access to capital affects start-up businesses tremendously. In light of this the study recommends as follows: organizations that employ people should invest in on-job training so as to enhance the capacity of their employees after leaving their jobs; the government should strengthen the financial kitties aimed at enhancing the access of funds to retired and old people; microfinance institutions should come up with products that target post-employed persons Lastly, working people should constantly enroll in training programs since this may enhance their capacity to undertake income generating activities such as businesses in the future after employment.

Key Words: Post Employed Persons, Remote Environment, Requisite Knowledge, Redundancy, Capital, Age.

1 INTRODUCTION

This paper presents an outline of the factors affecting start-up businesses among post-employed persons in environments. It presents the background and aim of the study, theoretical and conceptual frameworks, study methodology as well as findings, conclusions and recommendations.

1.2 BACKGROUND AND AIM OF THE STUDY

The private sector has become “the central focus for economic development in African countries in recent years primarily due to the failure of public sector-led economic development and the rise in globalization” (UNIDO, 2001). In Kenya, the private sector, like in any other developing countries, plays a vital role in sustainable economic development. The Kenya Government (1988, 1997 and 2003) acknowledges the indispensable role of the private sector towards sustainable economic growth. The Economic Recovery Strategy Paper of 2003-2007 (GOK, 2008) was therefore developed to enhance private sector growth and competitiveness, restructure public expenditure to support growth, ensure equity and reduce poverty (GOK, 2008). The major role of this sector is creation of wealth, and in so doing, contributes to generation of income, employment, savings and investment, economic growth and social welfare.

As noted by Brink, Cant & Ligthelm (2003) “the failure of post-employed persons starting businesses in a remote environment is estimated to be between 70 and 80 per cent.” The three further state that “often the ideas are good and the people

behind them are capable, but that they have no idea about how to run a business, and have no underlying respect for business fundamentals.” According to Monk (2000), “there are many reasons that have led to the increase in failure rate of start-up businesses for post employees, including lack of sufficient working capital, poor market selection and swiftly changing market conditions. The process of starting a new business venture lies at the very heart of the entrepreneurial process. Entrepreneurs are the dominant characters of the entrepreneurial process.” Most entrepreneurial studies have described the entrepreneurial process as “consisting of all the functions, activities, and actions associated with entrepreneurs perceiving opportunities and the creation of ventures to pursue these opportunities” (Walker & Brown, 2004).

Rather than personal characteristics, “a combination of experience and environmental awareness which is focus is demonstrated as significant predictors when starting a business.” Consequently, “the characteristics of the businesses and owners may influence their perceptions of their success and its relative importance” (Walker & Brown, 2004). Entrepreneur characteristics, such as “age, access to capital, redundancy and experience, as well as physical and emotional support from family members are important factors that influence post-employed persons starting businesses in a remote environment.”

One of the options left for post employed persons is starting business in many economies. As pointed out by GOK (2008), private businesses play a key role in creation of wealth. As such, it contributes to generation of income, employment, savings and investment, economic growth and social welfare. After many years of formal employment, post employed persons have to join a business world that is dominated by people who have had been there all their work life. Regrettably these post-employed persons are expected to compete in such a landscape and etch a living to support themselves in the preceding years? More often than not, they fail. This condition has been of interest to scholars for many years.

As noted by Brink, Cant & Ligthelm (2003), 70 and 80 per cent of the businesses started by post-employed persons fail. But why do they fail? In fact no local study has attempted to cast light on the factors that lead to such failure of post-employed persons in the Kenyan market. A notable study by Monk (2000), though not undertaken in Kenya, found out that “there are many factors that have led to the increase in failure rate of start-up businesses for post employees.” These include lack of sufficient working capital, poor market selection and swiftly changing market conditions among others. These factors may be pegged to lack of requisite experience (after years of doing different job-related tasks), redundancy, advanced age and lack of capital. However, without a local study, an elaborate understanding of these factors in a remote environment may remain a tall order. This paper promises to bridge this gap by investigating the factors affecting post-employed persons starting businesses in a remote environment through a case study of the former employees of Tata Chemicals Ltd.

The objective of the study was to investigate the factors affecting post-employed persons starting businesses in a remote environment through a case study of the former employees of Tata Chemicals Ltd. The specific objective of the study was to determine the effect of lack of entrepreneurial skills on post-employed persons starting business in a remote environment; determine the effect of redundancy on post-employed persons starting business in a remote environment; determine the effect of age on post-employed persons starting business in a remote environment; and determine the effect of lack of access to capital on post-employed persons starting business in a remote environment.

The study conceptualizes that post employed persons face numerous challenges while starting businesses in Kenya. As shown in Figure 1, these include lack of access to capital, redundancy, age and lack of entrepreneurial skills.

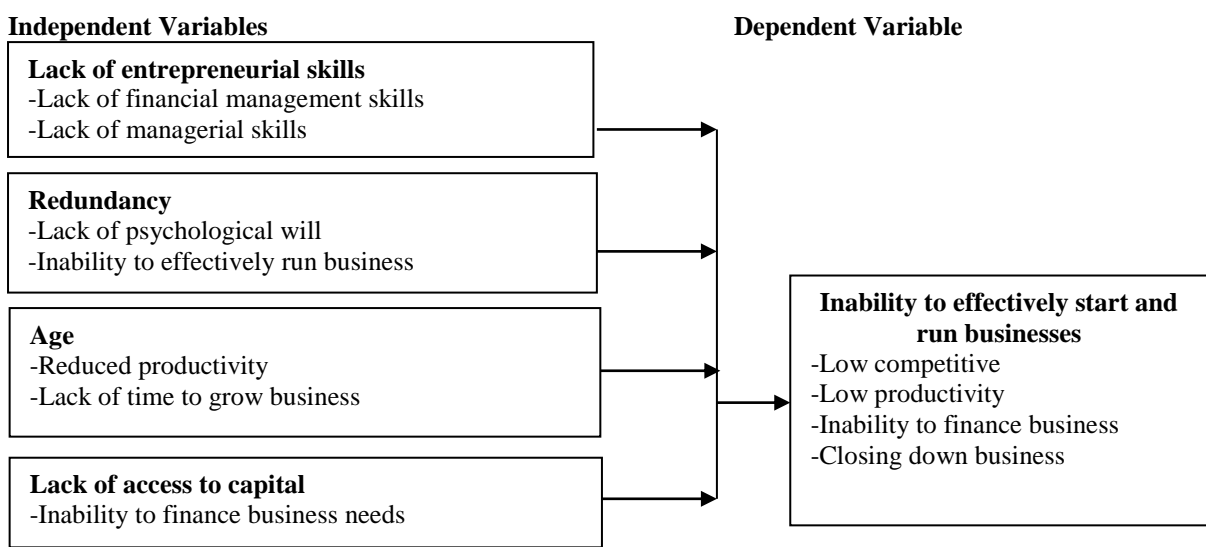


Figure 1 Conceptual Framework

Source: Authors (2019)

There is a wing of literature on the factors affecting entrepreneurship for post employed persons in a remote environment. Even though starting a business has its own advantages, it is not free of problems. Samiti (2006) classified the basic factors that

affect post-employed persons starting businesses in a remote environment in to two broad categories economic and social. The economic factors include: “lack of access to capital or finance while the social factors include lack of social acceptability; having limited contacts, outside prejudice and class bias; society looks down upon; attitude of other employees, lack of requisite experience, redundancy and age.”

According to Tushabomwe-Kazooba (2006), “post employed business owners are usually inexperienced in the type of business they intend to operate. Moreover, these post employees are not normally familiar with the condition of the products they purchase. Products, which do not suit the tastes of the customers, remain in stores tying up working capital which necessitates advertising and price reductions to attract more customers, which, in turn, leads to a potential reduction of profitability. This results in poor sales and negative cash flow, thus minimizing the chances for most businesses to succeed.” The former study related to this study in that it looks at requisite experience as a determinant of success of new businesses. However, the study may not adequately deal with the Kenya case.

Okpara and Wynn (2007) identified “lack of business experience as one of factors that is responsible for post employees’ business failure in Nigeria.” They point out that “these former employees do not have enough experience, knowledge or vision on how to run a business.” Moreover, Van Aart et al. (2008) caution that “lack of experience is a risk because it results in the inability to plan, acquire funds, read the business environment factors and run the business effectively and efficiently.”

Nieman, Hough and Niewenhuizen (2003) also highlighted that “most post employees lack sound business understanding and experience.” In addition, the authors cite that “relevant experience limits entrepreneurship as well as the survival rate of new ventures. Moreover, entrepreneurs with limited experience may use simplified decision models to guide their venture start-ups, while the opposite is the case with experienced entrepreneurs.”

Mazzarol et al. (1999) established that “one of the major factors affecting business start-up was redundancy. Redundancy is a key determinant of the willingness and perceived capacity to start any project. As such, people who have recently lost their jobs due to redundancy related factors tend to have low morale in attempting business venture for fear of failure.” The former study is a little dated and may not address the issues of this millennium adequately. This necessitates this current study.

The significance of age for start has been of interest to many scholars for decades. Dolton and Makepeace (1990) in their study of small business formation among graduates in the UK found that “age is a significant predictor of business start-up. For employees in Kenya, age could be a factor. This necessitates a local up to date study to investigate the factor.” According to Walker & Brown (2004), “starting a business at any age is high risk, and many retirement-age entrepreneurs face the very particular challenge of time. For the young business people, the imperatives of building a successful business and financial security happens within a much wider window of time than it does for older entrepreneurs. The risk of failure and never being able to rebuild the retirement nest egg is a significant consideration.”

Lack of capital is “often given as the primary reason for post employees’ business failure by popular literature and scholars. Despite the plethora of development finance institutions that exist in Kenya, research identified lack of access to finance as a major obstacle that limits the long-term survival and development of business enterprises in the country.” Hussain and Yaqub (2010) cite that “financial resources are a major problem for small businesses around the world.”

Okpara and Wynn (2007) also found that “financial support is a major problem in managing and sustaining a small business for post employees in Nigeria. Businesses find it difficult to borrow money from banks because they lack collateral. The loans provided by micro-finance institutions are also small, with short repayment periods and high interest rates.” Moreover, Simrie et al. (2011) reported that “access to finance has remained one of the top three constraints for small businesses. They largely bemoan their relationships with retail financial institutions, citing procedures and qualifying criteria among the major problems. Another key issue is the fact that, even when a small enterprise qualifies for debt instruments, loans are prohibitively expensive. One key problem area that remains is the lack of micro-finance at reasonable rates.”

2.0 METHODOLOGY

2.1 Research Site

Tata Chemicals Limited (TCL) is “a global company with interests in Chemicals, crop nutrition and consumer products. It is the world's second largest producer of soda ash. With manufacturing facilities in India, UK, the Netherlands, Kenya and USA, TCL is the world’s most geographically diversified soda ash company, with an efficient supply chain that can service customers better and faster across the globe. Established in 1939 at Mithapur (in Gujarat, India), TCL is a part of the Tata group. The company is a pioneer and market leader in the Indian branded iodized salt segment and India's leading producer of nitrogenous and phosphatic fertilizers. Tata Chemicals Magadi occupies a significant place in the Kenya economy. It is Africa's largest soda ash manufacturer and one of Kenya's leading exporters. Just as significant, the company is an important part of the socio-economic fabric of the Lake Magadi region in Kenya where its soda ash facility is based.” It is in this context that the study will take place.

2.2 Methods and research design

The study utilized descriptive research method. This scientific method of investigation involves collection and analysis of data in order to describe a phenomenon in its current condition. The researchers focused on the employees of Magadi Chemicals Ltd., so as to determine the factors affecting them in starting businesses. As such, the study targeted employees that live in the premises of the company. There is currently a population of 87 such persons. These constituted the target population.

The researchers used simple random sampling method in the study. This formula for calculating the sample shall be the one put forward by Yamane (1967). The formula thus is: " $n=N/(1+N(e)^2)$ (where n = sample size, N = population size and e = the level of precision (0.05))." As such, the study sampled 71 persons (81.6%) of the target population. Indeed, according to Kasomo (2006), "10% of all accessible population is enough for a descriptive survey study." The population of 81.6 % was sufficient enough for the study.

Data on the factors affecting post-employed persons starting business in a remote environment was collected using a questionnaire. The questionnaire had closed ended questions. The use of a questionnaire is preferred since it can be used to collect information from a large sample. The questionnaires was delivered to the respondents and they were given ample time to answer the questions at their convenience and thereafter hand over back to the researchers according to the agreed time.

The researchers collected data "in large quantity which was organized in such a way that further analysis and interpretation of data was made easy. The data was edited, coded and classified so as to present the results of the data analysis in a systematic and clear way (Mugenda & Mugenda, 1999)." The researchers used both descriptive statistics in data analysis. Through the use of pie charts and graphs, the data was presented diagrammatically. This type of presentation is efficient in that it is easy to depict data more accurately.

3 RESULTS AND DISCUSSION

3.1 Effect of lack of entrepreneurial on post-employed persons starting business in a remote environment

The study found out that lack of entrepreneurial skills affected post-employed persons starting business in a remote environment. Indeed, the vast majority of persons starting business in a remote environment do not have enough have sufficient such knowledge on the businesses they started. Furthermore, the majority of respondents pointed out that: many don't know how to do business, many haven't done the same business before, they don't have enough training on the kind of business they start, many don't understand some aspects of business management, some cannot manage the competition since it is a lot, other businesses have more advantage before since they have done business for longer periods of time and, many don't have the enough marketing techniques.

These findings agree with the studies by Tushabomwe-Kazooba (2006), Okpara and Wynn (2007) ,Van Aart et al. (2008), Nieman, Hough and Niewenhuizen (2003) and, Kuratko (2009) that most post employed business owners are usually inexperienced in the type of business they intend to operate. This corroborates the fact lack of entrepreneurial skills would hinder the success of new businesses.

3.2 Effect of redundancy on post-employed persons starting business in a remote environment

As far as redundancy was concerned, the findings of the study show that it is a likely cause of loss of employment for post-employed persons according to the majority of respondents. Furthermore, the majority of the respondents pointed out that the major causes of loss of employment for post-employed persons were low profitability in the company (86%). This was followed by lack of relevant skills (80%); emergency of new technologies (69%) and; employment of new (qualified) persons (58%). Once an employee was declared redundant, this had numerous effects on his/her future business prospects. To this end, post employed persons were likely to feel: they were no longer worth to do any job; they did not have the capacity to do a business; there were better persons who can do business, it's not for post-employed person; they had to be retrained before undertaking businesses well; that if they started businesses the businesses would collapse, and that they could only look for a job like the one they were doing at Tata Chemicals Ltd. As pointed out by other studies, many persons who leave their jobs may be faced with redundancy. Being made redundant reduces the confidence of persons to engage in future employment activities. This is shown by scholars such as Kuratko (2009) and Mazzarolet. *al.* (1999), this authenticates this study.

3.3 What is the effect of age on post-employed persons starting business in a remote environment?

Furthermore, the researchers to determine if age affected post-employed persons starting businesses in a remote environment. The majority of the respondents (91%) pointed out that age indeed affected the success of such businesses. The respondents also agreed with some statements related to the effect of age on post-employed persons starting businesses in remote environment. To this end, some of them find that their line of expertise needs one to be younger to start a business in it, some are sick and their health is their priority, they may no longer be able to compete with younger people, some don't have current ideas for doing business, some have a lot of family obligations to manage a new business, and some are too old to carry out the demands of any business.

This study agrees with scholars who have identified age as a major challenge facing post-employed persons starting businesses. This study agrees with scholars such as Dolton and Makepeace (1990) who in their study of small business formation among graduates in the UK found that age is a significant predictor of business start-up, and also the study by Walker & Brown (2004) who pointed out that starting a business at any age is high risk, and many retirement-age entrepreneurs face the very particular challenge of time.

3.4 What is the effect of lack of access to capital on post-employed persons starting business in a remote environment?

Lastly, the majority of the respondents (97%) pointed out that lack of access to capital affected post-employed persons starting businesses in remote environments. The respondents highly agreed that access to capital affected the success of businesses undertaken by post employed persons. As such, the majority of post-employed persons lacked knowledge on other ways of fundraising for a new business, there was lack of/insufficient local microfinance institutions willing to work with post-employed persons, there was lack of/insufficient banks willing to give credit, there was lack of/insufficient monetary support from family members, they had so much financial obligations to afford to finance a business, and they were faced with lack of sufficient personal savings. These findings agree with other scholars who have identified lack of capital as a primary reason for post employees' business failure. Despite the plethora of development finance institutions that exist in Kenya, this research has identified lack of access to finance as a major obstacle that limits the long-term survival and development of business enterprises in the country. As such, this study agrees with Hussain and Yaqub (2010), Okpara and Wynn (2007), Simrie et al. (2011) and ILO (2008), who see difficulty in gaining access to finance from formal institutions as one of the biggest challenges facing start-up businesses.

4.0 CONCLUSIONS

The study found out that many post-employed persons decide to look for an alternative form of income. As such, starting businesses is one of the easiest options. So most of them invest the little gratuity they have to start business. But when they do this, they may not succeed. Why? Because the often lack the requisite entrepreneurial skills to run businesses in today's increasingly competitive world.

In other cases, employees who are declared redundant and laid off from their jobs find themselves lacking the psychological preparedness to start businesses. They may find themselves feeling unable to compete with younger people and may feel burnout. In this case, their strength to start and sustain businesses may deteriorate and lead to collapse of their businesses should they start them.

Employees who leave their job may also be faced with age related constraints. In this case, they may have diminished time to start and watch business grow. They may also lack the strength to manage the obligations of a young business. In this case, they may lack the competitive edge need to ensure the success of a business.

Lastly, the study concludes that access to capital affects start-up businesses tremendously. As such, post-employed persons may lack the capacity to finance their business needs. This immensely affects start-up of such businesses and may lead to their decline should they be funded by the meager savings of most post-employed persons. In light of this the study recommends as follows.

5.0 RECOMMENDATIONS

The study recommends that organizations that employ people should invest in on-job training so as to enhance the capacity of their employees after leaving their jobs. The government should strengthen the financial kitties aimed at enhancing the access of funds to retired and old people. This would enable post-employed persons get access to some form of capital and start businesses. Microfinance institutions should come up with products that target post-employed persons since they constitute a population that may enhance the profitability of such institutions. This would be paramount in availing capital to post-employed persons. After all, some post employed persons have had been working for a long period of time and could easily manage their businesses with care.

Working people should constantly enroll in training programs since this may enhance their capacity to undertake income generating activities such as businesses in future after employment.

6.0 SUGGESTIONS FOR FURTHER STUDIES

There is need for comparative studies targeting other areas other than Magadi. Furthermore, studies that look intensively at each variable identified in this study would be key in Kenya and would be essential.

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