INFLUENCE OF FINANCING ON GROWTH OF RESTAURANTS IN NYERI TOWN: A SURVEY OF SELECTED RESTAURANTS IN NYERI CENTRAL BUSINESS DISTRICT

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INFLUENCE OF FINANCING ON GROWTH OF RESTAURANTS IN NYERI TOWN: A SURVEY OF SELECTED RESTAURANTS IN NYERI CENTRAL BUSINESS DISTRICT

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ABSTRACT

The purpose of this research was to determine the influence of financing on the growth of Restaurants in Nyeri town: A survey of selected restaurants in Nyeri central business district. Financing as a factor is a major concern to entrepreneurs and the government. The research adopted a descriptive survey design involving the owners and staff of restaurants based in Nyeri Town. The population for the study was 70 respondents from the selected 14 restaurants that offer meals, drinks and accommodation. The researcher adopted census technique to collect data from the target population of the study. The data was collected by use of a semi-structured questionnaire administered through personal interviews. Descriptive statistics was used to analyze the data collected. Bar charts, tables, and pie charts are used for data presentation. Some of the major findings in this research include the fact that majority of restaurants are sole proprietorships and this may limit their finance accessibility from banks. The research concludes that finance has an influence on the growth of restaurants. *The researcher recommends that* the high number of sole proprietorships should be incorporated. This would improve financial accessibility as limited companies are more credible and they can easily acquire business loans.

Key Words: *Financing, Restaurants Growth, Nyeri Town*

INTRODUCTION

Finance is the provision of money when and where required. Finance may be short term, medium term or long term. It is therefore money needed to start, operate and or expand a business. Baumback (1988), states that a major problem of small business is its inability to obtain adequate financing, either in an absolute sense or because the costs, in terms of interest rates are often too prohibitive.

Restaurant Growth is the quantitative increase in restaurants sales turnover and increase on; branches, labor force, profits, capital and assets including other business interests. Growth is a natural, and healthy, and desirable of any business venture, but it must be planned and controlled. Management expert Peter Drucker says that start-up companies can expect to outgrow their capital bases each time sales increase 40 to 50 percent. Ideally, entrepreneurs finance the expansion of their companies by the profits they earn, ('retained earnings') or by capital contributions from the owners, but most businesses wind up borrowing at least a portion of the capital investment.

According to McCormick (1996), working capital seems to be a big problem for many businesses that lead to growth stagnation. Entrepreneur restaurant owners do not want to increase investment in their small scale businesses so as to penetrate the market and promote product development. The hallmark of true entrepreneurs is their ability to adapt to the market and business dynamics otherwise they fail, Zimmerer &Scarborough, (2003). The product offering is restrictive giving the customers little or no variety of choice. Baumback (1988) argues that the higher cost of small business borrowing has put considerable pressure on overall small business profitability resulting to stagnation in growth.

Restaurants in Nyeri town constitute small enterprises. They employ 1-50 Workers, (Government Of Kenya, 1999). The startup and growth business life stages are vital to the survival of these restaurant business enterprises. In any new business venture, good decision-making is vital. Opening a new restaurant business requires so many decisions that it's not hard to make some mistakes along the way. It takes lots of planning, capital, hard work, perseverance, and a little luck doesn't hurt either, to launch a new restaurant that hits the mark and becomes a financial success.

Problem Statement

Restaurants in Nyeri town have been left out of the lucrative Mt. Kenya Tourism Circuit which receives between 14,000- 20,000 tourists annually, Mt. Kenya Tourism Circuit Association, (2010). These enterprises compete to serve the local market that comprises the working class, students and business people operating within the town and its environment. Restaurants therefore face many obstacles that inhibit their long-term survival and development. The owners complain; they don't get much business. Growth and the desire to grow should be embedded in the mindset of the entrepreneur as an entrepreneurial mindset constantly seeks growth and innovation. Nieman et al (2003:232) believe that growth is critical to entrepreneurial success and is one of the factors that differentiate an entrepreneurial venture from a small business venture. Most small and medium enterprises, (SMEs) perform poorly; they experience a decrease in output, (Government of Kenya, 2005). These enterprises face the risk of growth stagnation, partly because they are not well established, (Government of Kenya, 2009). To mitigate these challenges and enhance rapid return on investment, growth and development, entrepreneurs need to be adaptive, flexible, and to operate on the cutting edge of technology, encouraging and supporting new ideas instead of discouraging them. Entrepreneurs have not developed growth strategies to spearhead and unlock their firm's potential. Over the last three years, only two restaurants have qualified to register with Kenya Tourism Board as tourist hotels (Kenya Tourism Board, 2010). To realize the potential contribution by restaurants to a country's economic development, financing as a factor that determine their growth and development need to be well known so that the necessary interventions can be undertaken. Little has so far been achieved in the restaurants sub-sector. In addition, no systematic study and no coherent conclusion has so far been undertaken to unveil the influence of finance as a factor that affect the growth of restaurants for Nyeri town.

The major purpose of the study was to analyze financing as a factor that influences the growth of restaurants in Nyeri town.

Research Objective

The objective of the study was to determine the influence of financing on the growth of restaurants in general and particularly in Nyeri town.

Research Hypotheses

H0; Financing has no influence on growth of restaurants in Nyeri Town.

H1; Financing has an influence on growth of restaurants in Nyeri Town.

LITERATURE REVIEW

Introduction

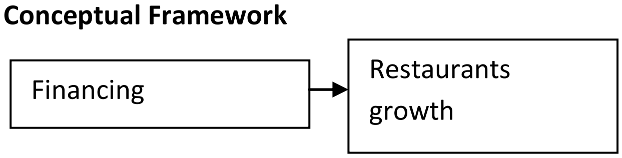
This chapter presents the literature reviewed in relation to the set objectives of the study.

Theoretical Literature

According to Baumback (1988), small business has serious financial problems in at least three respects: (1) securing funds in small amounts at rates comparable with those paid by larger firms, (2) building and maintaining adequate financial reserves, and (3) securing equity capital. Slater (1984), identified eleven factors which were the principle causes of decline as poor management, inadequate financial control, competition, high cost structure, changes in market demand, adverse movements in commodity prices, lack of marketing effort, big projects, acquisitions, financial policy, and over trading. Of these, the study was to determine those that are more relevant for the area of study. (Baumback 1988) asserts that before products and services can be distributed or marketed, it is necessary to know where the potential customers are. Some businesses can thrive in one location but not in another location. Choosing the right location for ones business is usually a deciding factor in its success or failure.

According to the Central Bureau of Statistics, Ministry of Planning and National Development, Economic Survey, (2003), there are several reasons why small and medium firms cannot access commercial bank financing, not only in Kenya, but also in many developing countries around the world. Banks typically require well secured collateral from applicants and are ill-suited to serve the needs of young, small and medium-sized firms due to information asymmetries, on project quality between bankers and entrepreneurs and the lack of adequate collateral.

Conceptual Framework



Independent Variable **Dependent Variable**

Figure 1: Link between restaurants growth and variable to growth

Source: Author (2011)

Empirical Literature

According to research findings by (Per Davidson, 2002), on growth in small firms and n-arch, an interesting result is that the relations between some expected outcomes and growth willingness appear to be asymmetric. When growth is expected to result in a loss of control, this has a strong growth-deterring effect, according to these data. If, on the other hand, a gain in controllability is expected, this has no motivating effect at all. For independence, exactly the opposite pattern is found. The results also suggest a positive relation between achievement motivation and growth willingness. This relation appears to be contingent on an expectation of financial gains from growth. Thus, in the absence of financial reward, achievement motivation does not enhance growth willingness. Finance is the provision of money when and where required (Oketch, 1999: Ledgerwood, 1999). Finance may be short term, medium term or long term. Finance is therefore money needed to start, operate and or expand a business. According to (Dun and Bradstreet, 1985), the single most common cause of business failures is economic in nature as insufficient profits, high interest rates, loss of market, no consumer spending, and no future. Baumback (1988), states that a major problem of small business is its inability to obtain adequate financing, either in an absolute sense or because the costs, in terms of interest rates are often too prohibitive. He further said that the higher cost of small business borrowing has put considerable pressure on overall small business profitability resulting to stagnation in growth.

According to McCormick (1996), working capital seems to be a big problem for many business owners. Many of them produce for the market rather than for specific customers. They do not receive deposits to enable them buy inputs-hence low demand and small profit margins makes it difficult to accumulate enough working capital thus do not grow and may ultimately wind up.

According to Seibel (1988), and Malkamaki (1994), few rural dwellers use rotating savings and credit associations (ROSCA) savings directly in a business, but the availability of these funds cover large outlays like school fees. This may have enabled rural woman to reinvest their profits rather than using it for family expenses.

Seibel says that financial institutions lack responsiveness to small enterprises probably due to inflexible financial systems within which they operate and the physical and social distance between the banker and the typical small scale entrepreneur.

He further says that financial institutions operate under profit and legal constraints that make them reluctant to offer services to small scale entrepreneurs. Some commercial banks and development finance institutions have programmes for small businesses, but they tend to aim at medium size firms where transaction costs are lower and the probability of recovery higher than they are with very small businesses. Therefore, financial institutions may easily become more preoccupied with making funds available for business start up or expansion.

RESEARCH METHODOLOGY

This chapter focuses the methods used to collect data which was analyzed and subsequently applied to determine the intrapreneurship as a factor that affect the growth of restaurants in Nyeri town. A descriptive study was adopted. The scope of the study was limited to Nyeri town central business district due lack of adequate funds and time to cover the other areas of the country. Nyeri town was chosen because of its geographical location within Mt. Kenya tourism circuit, and the rapid population growth. The study involved those entrepreneurs who had been in business for over one year because of exposure to issues studied. The criteria for the target population for this study was those restaurants offering food and beverage menus and accommodation, located within Nyeri central business district and enlisted by Nyeri municipal council licensing department. It included hotel Ibis, which is among two registered with Kenya tourism board in the last three years , Kenya tourism board, (2010). The research covered only those restaurants which employ less than 50 workers. The study population was 70 respondents consisting five staffs from each of the selected restaurants as follows; Owner/Managers: 28, Accountants: 14, Supervisors: 28 i.e. five staffs from each of the 14 selected. The research adopted census survey technique. A physical count was however necessary because a restaurant could be indicated in the registration file but not operating. Preliminary study indicated that the target staff comprised owner/manager, an accountant and two supervisors yielding a study population of 70 respondents. On data collection, data was collected from the field through a questionnaire which was prepared in advance and administered to the respondents by the researcher. Errors detected during the pre-testing were corrected before the study began. The questionnaire was physically administered. This allowed the researcher to seek clarification on answers given and enabled respondents to seek clarification of questions asked. The questionnaire was also dropped and collected later where respondent was not immediately available. The researcher determined the validity of the instrument in two ways. First, it was discussed with the supervisors from the department by going through each item and analyzing whether it measured what it ought to measure. The suggestions, clarifications and other inputs were used in making the necessary changes. Secondly, validity of the instrument was determined through piloting. In order to test the reliability of the instrument to be used in the study, the test-retest method was used.

The quantitative data collected was cleaned, coded and entered in excel format ready for analysis. This eliminated any bias. The data was analyzed and presented in form of tables, figures and descriptive narration. Inferential statistics, Pearson's correlation coefficients (p-values), was used to test the null hypotheses. Each key response was analyzed to enable describe how the total sample behaved in terms of the relationship of the independent and dependent variables. The analyzed data was changed into descriptive statements or inferences on the research area. Brinker, (1988) argued that the simplest way to present data is in frequency or percentage table, which summarizes data about a single variable. The interpretation of data was based on the conceptual framework and the literature review. Quantitative data was analyzed using statistical package for social scientists computer software. The research treated all information given for purposes of this study in confidence and did not use the information for personal benefits or to ridicule respondents whatsoever. Confidentiality was up held by the researcher. The findings were to be purely for academic purposes.

RESULTS AND DISCUSSION

This chapter presents the findings of the data collected from the sampled restaurants in Nyeri town on the influence of intrapreneurship on the growth of restaurants. Out of the 70 respondents that the study targeted there were 43 respondents representing 61.4 percent. The analysis was performed using statistical package for social scientists computer software and findings presented in the form of descriptive statistics, tables, bar charts and pie charts. The discussion captured the outcomes based on the hypotheses and research objective in the study. Supervisors constituted a response rate of 52.4 percent followed by Assistant Managers at 23.8 percent and Managers at 11.9 percent, with the Owners at 4.8 percent. There was lesser response from the Directors as they are the proprietors and tend to rely on the managing staff for the day to day running of the restaurants. Majority of the respondents (69 percent) age between 31-45 years, those aged over 45 years and those below 30 years constituted each 14.3 percent with 2.4 percent preferring not to state their age. From these findings, it was concluded that entrepreneurs in restaurant business were more aggressive and active at the ages of 31-45 years. 76 percent of the respondents interviewed were male, while 24percent were Female. This shows that the majority of the respondents were male. It means that women respondents relied on their spouses in earning a living. The findings indicated that a significant number, 61.9 percent of respondents had secondary school education. Respondents who had College, University and primary were 30.9 percent, 2.4 percent 4.8 percent respectively. Most restaurant enterprises offered employment to 'O' level graduates. It implies that entrepreneurs with 'O' level education performed well in restaurant business. It explains that the 'O' level owners are managing full time, while those with higher education had other jobs thus rely on employees to manage the businesses. Majority of the respondents (40.5 percent) indicated that they had training in hospitality management. Those with marketing at 26.2 percent while business management, business record keeping and finance comprised 16.7 percent, 14.3 percent and 2.4 percent respectively.

On level of capital at Start Up and Now majority, 71.4 percent of the respondents indicated that level of capital had increased. Respondents at 26.2 percent said that capital remained constant while only 2.4 percent said that capital had decreased. Changes in capital of business indicated how that business had grown over time. This may have been attributed to business training by the entrepreneur, which enhanced business management, marketing, and accounting skills.

Based on forms of business ownership, the study revealed that majority, 80% of the respondents were engaged in sole proprietorship. Limited companies and partnerships accounted for 16.6% and 2.4% respectively. The research results showed that majority of entrepreneurs preferred sole proprietorship for effective management. This suggests that sole proprietorship had such advantages like easier decision making, don't share profits, easier to start and give personal attention. Respondents, (36 percent) had 10-29 workers**,** while 23.8percent had 40-50, and 19percent had 30-39 workers. Respondents who had 2-9 workers were 14.3percent and only 7.1percent had one worker. This shows that restaurants in Nyeri town were small and medium businesses and offered employment opportunities.

Respondents (55 percent) started business with 2-9 employees, 35.7 percent had 10-29, and 7.1 percent had 30-39 while 2.4 percent engaged 40-50 workers. Most businesses start low, (micro) and grow to gain experience with time. Respondents (52 percent) indicated that monthly business turnover at the start of business and now had increased. The increase was due to business growth. However, respondents at 38 percent said that business turnover remained constant and 10 percent indicated that monthly business turnover had declined. This was an indication that restaurant businesses were not growing.

On financial growth the study results revealed that 41 percent of the respondents were falling in the category of Ksh. 200,001-300,000. However, 24 percent of the respondents could not indicate the specific financial category for the business. A total of 21 percent of the respondents indicated that they were falling in the category of > Ksh. 300,000 and 14percent said that their restaurant businesses were falling in the category of Ksh. 100,001-200,000 (Figure 4.8). Majority of respondents were falling in a modest financial category.

Financing of Restaurants and Influence on Business Growth

Majority of the respondents (71.4 percent) indicated to a great extent that restaurants got financing to grow with 9.5 percent agreeing to a very great extent. 9.5 percent others moderately agreed and 4.8 agreed to a little extent while 4.8 percent were indifferent. Business financing was a major factor in determining business development. Commercial bank loans and cooperative savings and credit societies offered their customers such finances when required.

On types of credit, the study revealed that with sufficient collateral most respondents got financed through bank loans with 47.7 percent of the respondents strongly in agreement and 38.1 percent in agreement. 7.1 percent did not agree while another 7.1 percent were non-committal.

Financing is the provision of money to run the business. These could be bank loans or cash from other sources in which the entrepreneur qualifies for entitlement. Prudent finance management and credibility requires that qualified staff is engaged.

On sources of credit the study revealed that other than bank loans; entrepreneurs got finance from savings and credit cooperative societies and from other saving associations. 54.8 percent agreed while 42.9 percent strongly agreed and 2.3 percent disagreed. According to Seibel, (1988), financial institutions lack responsiveness to small enterprises due to their inflexible financial systems. Hence they source financing from ROSCAs.

On Business Ownership the study established that forms of business ownership were a major element in business financing with majority (48 percent) of the respondents in strong agreement and 45 percent agreed while 7 percent were neutral. Forms of business ownership influenced the types of credit and the sources. Commercial banks require sufficient collateral and prefer corporate customers.

Growth of Business

The study wanted to establish the extent to which restaurant business grew over the last two years. Majority 55% indicated at least average growth, while 40% of respondents said their business had registered at most average growth. An equal number (2.4%), of respondents said business had registered 11-30% growth and below 10% growth respectively. Strong macroeconomic management and recent investments in infrastructure may have led to the growth in businesses over the last two years.

Testing of the Hypotheses

Correlations analysis was used to find out whether financing and business growth are correlated. Results show. The table below present results of correlation analysis.

Table 1: Correlation on Financing and Growth of Restaurants.

Correlation on Business profile		Business profile objective
Growth of restaurants	Pearson's Correlation (r)	.437**
	Sig.(1-tailed)	0.001

**Correlation is significant at the 0.01 level (1-tailed)

Source: Author, (2012)

The table reveals that there was positive relationship between credit and the types of financing and the growth of restaurants. This is expressed by the positive correlation at r=0.437. The p value is 0.002 which is <0.01. The researcher therefore rejected the null hypothesis that finance has no influence on the growth of restaurants, at 1 percent level of significance. The alternative hypothesis was therefore accepted. This also implies that we would obtain a correlation coefficient of 0.437 ninety nine percent of the time, with significance of 0.01. This confirms the contribution by Slater (1984), who identified factors which were the principle causes of decline that included inadequate financial control, high cost structure, and financial policy.

SUMMARY OF THE FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

This chapter focuses on the summary, conclusions, recommendations and suggestions highlighting areas for further research on influence of financing on growth of restaurants.

Summary of the major findings

The null hypothesis was, finance has no influence on the growth of restaurants whereas the alternative was finance has an influence on the growth of restaurants. The researcher fails to accept the null hypothesis and therefore accepts the alternative hypothesis which means finance has an influence on the growth of restaurants. Majority, 80.9 percent of respondents totally agreed that financing play a big role in the growth of restaurants.

Conclusion of the Study

There was strong correlation on the relationship between growth of restaurants as dependent and the independent variable i.e. financing. There was strong believed that credible firms seek bank loans to grow their business. This confirms the contribution by Slater (1984), who identified factors which were the principle causes of decline that included inadequate financial control, high cost structure, and financial policy. Business ownership was 80% sole proprietorship. The firms got finance from other sources such as rotating savings and credit associations (ROSCA), friends and family. Sole proprietorships had probably more inflexible systems within which they operate and create physical and social distance between them and the banker. Finance is more accessed by corporate firms. According to Seibel (1988), and Malkamaki (1994), it was found that financial institutions lack responsiveness to small enterprises probably due to inflexible financial systems within which they operate and the physical and social distance between the banker and the typical small scale entrepreneur.

Recommendations

Majority, eighty percent of respondents revealed that restaurant business ownerships in Nyeri town were sole proprietorship. The high number of sole proprietorships should be incorporated. This would improve financial accessibility as limited companies were more credible and they could easily acquire business loans. Commercial banks prefer to lend to companies as opposed to the more risky sole proprietorships. Outreach programs by financial institutions and other stakeholders should be developed to develop deeper understanding on the benefits of being incorporated. The Government needs to cooperate with the stakeholders and waiver corporate tax or reduce it.

Areas For Further Research

The researcher dealt with restaurants in Nyeri town. There is need for a similar study to be conducted in other fast growing towns for the adoption of this report to have a larger sample. The researcher focused on only one factor that influences the growth of restaurants. Another research could be carried out based on other factors that may influence the growth of restaurants businesses.

The study revealed that the level of involvement of undergraduate degree holders is very low. A study can be done to establish why graduates are not in restaurants business.

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