Income Differentials among Different Formal Education Graduates in Small Scale Businesses: A Case of Oyugis Town, Homabay County, Kenya

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Abstract: Study examined the income differentials among different formal education graduates engaged in small scale business in Oyugis Town, Homa Bay County. The population for the study comprised of one small scale traders and council workers of Oyugis town. Simple random sampling technique was used to select 10% of the population comprised of 123 small scale traders and council workers among a total of 128 respondents. Questionnaires and interview schedule were the main instruments used to collect data. The result of the study revealed that the mean daily income for the lower education graduates was ksh. 981.75 While daily income for higher education graduates was ksh. 1722.30 Emerging from the findings it was recommended that small scale traders to be encouraged to acquire more education before or after joining business.

Keywords: Income differentials, formal education, small scale business.

I. INTRODUCTION

Education is a central factor in social, cultural, political and economic development of any nation. This is because investing in human capital and development of human resources are legitimate option in every society, more so in developing nations for economic and social policy formulation and development (Psacharopoulos & Woodhall, 1985).Jones (1992) ascertains that both the industrialized nation and the developing countries take education as a key to development. For instance, broad based health education is prerequisite for sustained growth in health in Africa (World Bank, 1995).

Nyanza region has adult literacy level of 62.7 per cent, Rachuonyo South Sub - county where Oyugis falls has a rate of 64.5 per cent (Rachuonyo South, 2011). With this literacy level of 64.5 per cent of Rachuonyo South Sub- county, the literacy of Oyugis is slightly higher; 66 per cent as earlier revealed by the Kenya National Adult Literacy Survey, that literacy level in urban areas is slightly higher than rural areas. This therefore means that the level of the income among the small-scale traders in Oyugis town would likely be influenced by educational level.

It is generally argued that formal education imparts skills in the world of work. This study examined formal education levels and whether they could influence the earning levels of small scale traders in Oyugis town who are self –employed. This was to be in line with Sessional Papers of 1986, 1992, 1996, 1997, 2005 and2009, which underscore the importance of self-employment in employment creation in Kenya for poverty eradication. The 2005/ 2006, Kenya Integrated Households Budget Survey (KIHBS), the national absolute poverty declined from 52.3 per cent in 1997 to 46.1 percent in 2005 – 2006.In rural areas, overall poverty declined from 49.1 per cent in 1997 to 38.85 percent in 2005 and 2006.
Economic Recovery Strategy for Wealth and Employment Creation (GoK, 2010) realized that education improves people’s ability to take advantage of opportunities that can improve their well-being as individuals and be able to participate more effectively in the community and markets. Higher educational attainments for a household head significantly reduces the likelihood of a household being poor.

The simulation of impact of education on household’s income has revealed that targeting the poor households to complete higher education almost eliminates poverty, although major changes in poverty occur with ensuring that at least one member of the household completes junior secondary school and most of the income among Malawians come from non-wage income earning activities such as farming and operation of business.

Statement of the Problem:


In the Millennium Development Goals 2000, economic development is exclusively mentioned as the main way of facilitating progress in other areas of development (GoK, 2000). In Vision 2030(GoK, 2007) education and training is identified as a key player which can enable Kenya to compete globally. This means improving income levels of Kenyans so as to raise the overall economy. The National Goals of Education (GoK, 2002.6) stipulate that education in Kenya should meet economic needs by producing citizens with skills, knowledge, expertise and personal qualities that are required to support a growing economy. This refers to improving

In Oyugis town, there were 248 self-employed people in 2007, 318 in 2008, 402 in 2009, 806 in 2010, 913 in 2011 and 1070 in 2012 (Oyugis Town, 2014). Self-employment contributes to 40 per cent of employment in Oyugis town. Besides, there were 2050 formal education graduates who applied for formal sector employment with Oyugis town council between 2005 and 2012. The council could only absorb 38 as employees for the said period. This therefore meant that many formal education graduates could not be absorbed hence had to look for an alternative form of employment. Initiating a small scale business could be seen as the best alternative. But though some have been joining the small scale businesses, the worry has been that most of their businesses do not increase in size. What could be the curse of stagnation of the small scale businesses in Oyugis town? Could the stagnation be due to education as a factor in business success? The problem was lack of growth of Small Business Enterprises in the town. As normally expected by the government and scholars Small Micro Enterprises should grow and graduate to middle business opportunities. This would help meet the objective of initiating such small scale businesses of growing to middle businesses and creating sources of employment to the many unemployed population in the country, as a means of reducing poverty level. Therefore, this study sought to investigate the influence of formal education on income levels among small-scale traders in Oyugis town with a view to establishing the role of formal education as a fundamental factor in the success and progress of small-scale traders.

The Purpose of the Study:

The purpose of the study was to investigate the influence of formal education on income levels among small - scale traders in Oyugis town of Rachuonyo South Sub-county, Kenya.

Objectives of the Study:

Determine whether or not there is a significant difference between the mean daily income among different formal education graduates in small scale trade in Oyugis town.

Research Questions:

Is there a significant difference in mean daily income among different formal education graduates in small trade in Oyugis town?

Significance of the Study:

The study will help Oyugis town council recognize small-scale trade as an alternative source of employment for the formal education graduates. It is also hoped that the study will be useful to education planners and curriculum designers to
institute and design a curriculum that will enable formal education graduates to acquire basic skills of operating small-scale businesses as a form of self-employment, personal development as well as national development. The study will be a good reference for formal education graduates who may opt for small-scale trade as a form of self-employment and aids them with possible suggestions of expected pitfalls in choosing small-scale trade.

The study will assist the government to enhance business as a form of employment as it revealed that business helps in reducing poverty rate. By using the recently initiated “UWEZO” funds that the government has availed to the youth and women in the country, the government can reduce unemployment and poverty rates. The study will also assist researchers by availing to them new knowledge in the researched area and avails to them areas that will need further research.

Theoretical Framework: Concept of Human Capital Theory:

Economists view educational institutions as productive units which utilize input such as learners, teachers, textbooks, books and desks to produce outputs in the form of graduates (Psacharopoulos, 1985). A country which is unable to develop the skills and knowledge of her people and utilize them effectively in the nation economy will be unable to develop anything else (Harbison, 1973). This calls for any nation which longs for both social and economic development to consider developing and equipping her population with basic knowledge and skills acquired through formal education processes.

Human Capital Theory was developed by Shultz in 1961. According to this theory, there are many factors which contribute to the achievement and effectiveness of human capital. Early attempts to measure the contribution of education to economic growth were based either on growth accounting approach used by Denison and others (Denison, 1962) and on the rate of return on human capital, an approach adopted by Shultz and others. Growth accounting is based on the concepts of an aggregate production function, which links output (Y) to the input of capital (K) and labour (L). That is Y = f(K, L).

The Human Capital Theory has been used widely to estimate rate of returns in education from wage employment. This has led to the extension of the traditional model of returns to education in wage employment to assessment of the benefits of education for those individuals that are self-employed in agriculture and nonfarm economic activities. Malawi is one of the countries in which the labour participation rate is quite low. Chirwa and Matita (2009) note, in this case of Malawi that the formal labour market absorbs a smaller proportion of the labour force. Most Malawians are engaged in self-employment activities or in paid employment in the informal sector. Since the Human Capital Theory relates income to education and that capital invested in business and the labour input influence the return, it therefore stands that any business person needs a prepared labour, knowledge and skills to run his/her business venture more effectively. This was what the study was out to determine in a case study of Oyugis town. In addition, because the theory explains the basic requirements for full preparation of human capital, the theory is necessary for the study, which also sought to find out what could be lacking in small-scale traders in Oyugis town that made their businesses to stagnate.

II. LITERATURE REVIEW

According to USA, B. (2012) the speed of technological innovation and industry demands is moving faster than education ability to adapt. The system continues to focus on lectures and exams, leaving students underprepared to enter today’s workforce. This report revealed that the very skilled workforce success are the same skills graduating students lack such as analysis and problem solving, collaboration and teamwork, business context communication, and flexibility, agility and adaptability. The report overwhelmingly agrees that providing experience-based and practical learning is critical to address the current performance gaps.

The report gave a survey of a group of academic and industry leaders about the current state of higher education, which found that 51 per cent of the respondents believe that the current higher education system fails to meet the needs of students, and nearly 60 per cent believe it fails to meet the needs of the industry. The USA, B. (2015) underscores the exception of students from their institution to deliver technologically enhanced experience, yet higher education does not always deliver. Therefore, universities have to start embracing and exploring new technologies in analytics, cloud computing, mobility, and social media to provide greater access to educational content, integrate physical and digital worlds for more engaging experiences, and improve decision making.
The report gave an evidence of Emylon Business School which has seen the importance of entrepreneurship for skill development and by developing “Smart Business School”, a higher education environment that delivers personalized, on-demand business education globally via cloud computing. Varied business courses are available across devices, in multiple languages.

This has helped to develop a completely new model that blends carrier and technical skills hence bring together education and industry for purpose of meeting the industrial needs by the university and college-graduating students.

These finding of USA,B. (2012) confirmed the earlier findings of Fernando Alberti et al., (2004) who cited Peter Drucker (1985 ) that entrepreneurialism is not magic, is not mysterious, and it has nothing to do with genes. It is a discipline. In addition like any other disciple, it can be learned. Many share these ideas of Ducker. A United Kingdom survey by the Small Business Research Trust (1998, 2009) indicated that only 13 percent of the survey sampled believed that a process of learning could not acquire an entrepreneurship skill.

The paper cited that to tackle the challenges and to meet the objectives; the universities must ensure relevant training in all professional courses so as to address the current skills mismatch. Also to ensure integration of attachment/internship into the training system to enhance relevance and productivity as well as minimizing wastage (GoK, 2005). Contrary to these findings, Storey (1994) underlines that so far there has been very little empirical proof of the positive impact of education on entrepreneurship and entrepreneurial success. For researchers it has been difficult to identify a clear effect of training and education on small firm performance, either at start-up or at some other stage in their development. But the reason to their result or findings may lie in the poor quality and quantity of training provided, often not adequate for market needs. Despite these critical voices, we side with Brockhous (1994) in stating that teaching someone to be an entrepreneur is like teaching someone to be an artist. We cannot make a person another Van Gogh, but a person can be taught about colours and composition, and his artistic skills can be improved. Similarly, we cannot make a person another Branson, but the skills and creativity needed for being a successful entrepreneur could nevertheless be anyway enhanced by entrepreneurship education.

Therefore, entrepreneurship education fosters entrepreneurship, which in turn result in positive outcome an individuals, firms and society. There are three main sources of demand for entrepreneurship education; governments, students and business-world (Jack & Anderson, 1999). A government is driven by the shift towards a Post Fordist Economy. Through education governments aim at developing an entrepreneurial culture oriented to job creation. Since most of the new jobs arise from the entrepreneurial small firms rather than from large corporations. On side of students, there are two sets of reasons why students may want to study entrepreneurship: First, they may want to start up their own business. Second, they may wish to acquire knowledge which will be helpful in their careers in large organizations. For the Business-world, both large and small firms, there seem to be a general shortage of managerial skills in Small Micro Enterprises. In large companies, there is need for managers who are oriented to the development of new business initiatives to ensure a continuous renewal (Gibb, 2006).

In order to meet the needs of the TIVET graduates and market demands in Kenya, the government has decided to provide an alternative path for TIVET graduates to access higher education and training up to degree level. The government will also mobilize resources to rehabilitate TIVET institutions at all levels from youth polytechnics to national polytechnics and create opportunities for national polytechnics to offer degree level qualifications while retaining their present mandates (GoK, 2005). The government is also called upon to utilize secondary schools with facilities for industrial arts to offer second technical education in order to prepare the form four graduates for careers in TIVET. In doing so, all the levels of training must ensure that the main objective of Technical, Industrial Vocational and Entrepreneurship Training (TIVET) of providing and promoting life-long education and training for self-reliance is kept. The objective which is anchored on the on changing technology and market demand, must be
flexible to these changes. This would ensure that the entrepreneurship education graduates and other TIVET graduates are marketable to the industrial world and, are solutions to their own problems of unemployment. According to Sessional Paper No.1 2005 (GoK, 2005), the TIVET graduates should be sources of employment to themselves and others. The expectation is that with life-long acquired skills from their trainings, the TIVET graduates will be able to initiate Micro Small Enterprises which in turn will graduate to middle level businesses which in turn will employ so many other newly graduated formal education and TIVET trainees (Steven, 2012).

Bosire (1999) found that the majority of school leavers who join self-employment had done poorly in national examinations. Juma (1993) and UNDP (1986) said that formal education graduates had a bias towards informal employment and see it as a sector for uneducated lot. They said that the graduate of formal education looks at education as a means of escaping informal employment hence left for the failures in formal education.

Ogutu (1986) and Shiundu (1988) said that those joining informal employment were majorly primary and secondary school graduates whose education achievements were minimal hence better fit in such informal sectors. They too confirm the negativity secondary and post-secondary graduates have towards self – employment that Juma (1993) and UNDP (1986) had given. Juma (1993) confirmed that for better and successful operation of self-employment one required specialized training hence formal education and training is an important consideration in the type of self-employment activity one is engaged in.

African Report (2011), under the Finance Knowledge for Africa (FIKA) gives a detailed explanation on the need for small-scale traders in Kenya to train in various courses before they enter into business. It describes such training as instruments for equipping entrepreneurs to face the many challenges linked to running the business. This would enable their entrepreneurship always rise with success. The basic trainings the report says would equip small-scale traders in Kenya with personal and business finance skills. The report gives an evidence of more than 98,000 traders mostly who have so far been trained under programme dubbed; Finance Knowledge for Africa that seeks to train one million Kenyan small-scale traders. This report further affirms the strong need for education and training in small-scale business and confirms its importance on financial gain to traders in small-scale business hence determines income level.

Nyakundi et al., (2009) found that the independent variable, education has a strong influence on income with positive correlation between 0.9925 to 0.928. This is a strong relationship and highly significance in a oneailed test at 99 per cent confident level. This study realized that people who had higher education level, experienced determination and investment earned higher income.

### III. RESEARCH METHODOLOGY

**Research Design:**

The study employed a descriptive survey research design. A survey design involves asking a large group of respondents’ questions about a particular issue (Mugenda, 1999). According to Creswell (2003), a survey design provides quantities or a numerical description of trends, attitudes or opinions of a population by studying a sample of the population. From the sample research, the researcher generalizes about a population especially if the population is too large. The design enabled the researcher to collect data from a large number of respondents in a relatively shorter period.

**Study Area:**

The study was carried out in Oyugi town, Kenya. Oyugi is the administrative Centre for Kasipul division, Rachuonyo South Sub-County. Oyugi town is located along Kisii-Kisumu road. It boarders Kisii Central Sub-county on the south, Nyamira Sub-county in the east and Rachuonyo North Sub-county in the north. Most of the community members in the neighbourhood are arable farmers due to suitable land fertility.

**Study Population:**

The study population was 1280. Of whom there were 1239 small-scale traders; 811 women and 428 men, and a total of 47 clerical and statistical officers of the town council.
Sample Size and Sampling Techniques:

The sample size for this study was based on Mulusa (1990) and Fisher et al., (1998) recommendations. Thus 1/3 of target population. Hence thus resulted to 1/3 x 1239 = 413 small scale traders. Random number sampling technique was applied to get a total of 413 small-scale traders from the bigger population of 1239 small-scale traders in the town. The study sample comprised of 126 primary school graduates, 148 secondary school graduates, 89 certificate graduates and diploma and degree graduates who were random number sampled from the study population of 413. It also comprised of 15 council workers who were randomly sampled from the 47 target population (1/3 x 47 = 15) clerical council workers.

Data Collection Instruments:

The study used questionnaires and interviews as instruments for data collection. Questionnaires ensured freedom of expression for the respondents. Both open and closed ended questions were used in the questionnaires. A few questionnaires required a ‘Yes’ or ‘No’ answer followed by explanations. This assisted in specific responses and gave room for views from the respondents. There were two sets of questionnaires, one for the small-scale traders and other for town council workers (Appendices IV and V). Oral interviews were also done that enabled the researcher to have direct contact with the respondents. This gave elaborate explanations. The oral interview was particularly necessitated by low education levels of some respondents who could not read and understand, interpret and elicit answers from.

IV. FINDINGS AND DISCUSSION

Determination of whether or not there is a Significant Difference between the Mean Daily Income among Formal Education Graduates:

Standard Deviation:

<table>
<thead>
<tr>
<th>Income (x)</th>
<th>Frequency (f)</th>
<th>( f(x - \bar{x})^2 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>200</td>
<td>74</td>
<td>45223842</td>
</tr>
<tr>
<td>400</td>
<td>23</td>
<td>7783650</td>
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<td>936532</td>
</tr>
<tr>
<td>2400</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

\[ \sum f = 274 \]

\[ \sum f(x - \bar{x})^2 = 119238742 \]
The standard deviation for the daily income of category one (primary and secondary graduates) was calculated as 659.65 and that of category two (Certificate, Diploma and Degree graduates) was 283.38. This confirmed that the daily income for category two was less dispersed than that of category one. To establish whether the mean daily income of the two categories were significantly different, Z-test was used. The formula used was:

\[ \text{Sd} = \sqrt{\frac{\sum f(x-x)^2}{\sum f}} \]

\[ = \sqrt{\frac{119228742}{274}} \]

\[ = \ 659.65 \]

Table 2 Certificates, Diploma and Degree (Category 2)

<table>
<thead>
<tr>
<th>Income (x)</th>
<th>Frequency (f)</th>
<th>f(x-x)^2</th>
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<tr>
<td>200</td>
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<tr>
<td>2400</td>
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<td>3214939</td>
</tr>
</tbody>
</table>

\[ \text{Sd} = \sqrt{\frac{\sum f(x-x)^2}{\sum f}} \]

\[ = \sqrt{\frac{11320483}{139}} \]

\[ = \ 285.38 \]
A calculated Z value of -15.88 at alpha level of 0.05 was found. This was far less that of the critical table value of -1.96. As a result, the null hypothesis which stated that there is no significant difference between the mean daily incomes of the two categories was rejected. It was then concluded that the mean daily income of the two categories of small-scale traders in Oyugis town was statistically significant.

These significant differences are likely to be caused by the difference in education attained. As ascertained by Harman et al., (2003) any added year of education increases wage income by an average of 6.5 per cent based on a Meta-analysis of Micro-level studies of wage earners. This proves that as formal education increases with a small-scale business person in Oyugis town, their daily income and overall income increase. This same account was made by Van de Sluis (2005, 2008) who said that added year of education raises entrepreneurial profit by an average of 5.5 per cent in developing nations and 6.1 per cent in developed nations. Oyugis town being in a developing nation, Kenya, the profit of the formal education graduates in category two (certificate, diploma and degrees holders) is likely to rise by about 5 per cent from that of category one (primary and secondary graduates). With the increased income level which has been brought by increased education level, the sizes of their businesses would expand. Expanded businesses run by skilled entrepreneurs largely attract business support from both the government and the private sectors. This would lead to these entrepreneurs winning loans from financial institutions and from the government support schemes like “UWEZO” fund. As already indicated in this study and various government Sessional Papers quoted in this study, expanded MSE is a tool that fights the current high unemployment rate among the Kenyan population by creating employment opportunities. Given the significant contribution of MSEs to the national GDP and employment, which are established at 18 per cent and 72 per cent respectively these special consideration of financial support from both the government and private sector to MSEs will highly be of great value to the National Economic Growth. Equally, the current poverty rate would be reduced. As already cited in the thesis, the main contributor to the high poverty rate in Kenya is the unemployment among Kenyan population, so by having high education level; that is high business knowledge and skills; there would be high-income levels and expanded business sizes. Expanded business sizes would require more human labour hence more employment opportunities created. More employed population leads to more income to the society and increased national GDP hence reduction in poverty index.
V. CONCLUSION AND RECOMMENDATION

In the other hand, the limited education has led to poor business performance among the primary and secondary school graduates. While the adequate education has led to the growth of few businesses run by certificate, diploma and degree education graduates in Oyugis town. This therefore means that the lower education cadre has barred the town Small Micro Enterprises from graduating into medium sized businesses hence has failed to support the National Plans of creating employment opportunities through small-scale trade and poverty reduction through the same.

The Government and Financial Institutions should avail soft credit facilities to many school leavers who opt to join small-scale entrepreneurships in the town. This would not only give them business capital, but also give them a head start that would make their Small and Micro Enterprises graduate into medium sized businesses, employ more sales assistants hence creating employment in the town.

REFERENCES


