ISBN: 978-0-620-71797-7

THE INFLUENCE OF PUBLIC FINANCE ON THE PERFORMANCE OF SMMEs IN THE FREE STATE: A CASE OF AFRO HAIR SALONS IN MANGAUNG METROPOLITAN MUNICIPALITY.

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ABSTRACT

Despite the a number of literature that has identified finance as a major obstacle to the survival of businesses, there is mixed evidence on the exact nature of the relationship between public financing and firm performance of SMMEs especially hair salons. However, it is generally recognized that if SMMEs cannot find sufficient funding to sustain their enterprises then opportunities will be seized by other enterprises. Though as it may, there is limited research into the influence of public funding on the performance of SMMEs especially hair salons, as existing literature does not distinguish the funding sources of SMMEs. Since studies tend to accord preponderance to the role of financing in SMME development, this empirical study, therefore, seeks establish the impact of public funding on the performance of emerging businesses especially Afro hair salons in South Africa. The findings of this study suggest that although public funding of hair salons is critical to their long term performance, hair salons tend to depend more on internal private funding than public financing. The recommendations for this study are founded on increasing the public visibility of public funding of small businesses to improve their business performance.

INTRODUCTION

The current study examines the status and influence of public finance on performance of small, medium and micro-sized enterprises (SMMEs) particularly Afro hair salons in the Mangaung Metropolitan Municipality in South Africa. Afro hair salons fall under SMMEs because they are distinct entities independently owned by one or more owners. In South Africa, a small business is defined as a separate and distinct business entity, including co-operative enterprises and non-governmental organization that is managed by one owner or manager (NCR, 2011:24).

Afro hair salons in Mangaung Metropolitan Municipality in South Africa face the challenge of securing funding for financing their businesses (Rogerson, 2008; Booyens, 2011). Therefore, obtaining credit access is difficult for businesses in the informal sector as compared to the formal sector. More so, financial assistance for hair salons in Mangaung Metropolitan Municipality comes from their personal savings, loans from friends and families for their business start-up (NCR, 2011). One of the main barriers regarding financing SMMEs is that access to bank credit is limited to some enterprises that have acceptable credit histories and also have sufficient collateral to support the loans they make from banks (Agwa-Ejon and Mbohwa, 2015: 522).

Lack of access to funding for SMMEs will result in the enterprises not performing well, as financing influences the performance of an enterprise. The challenge is the literature is indiscriminate about the impact of the nature and source of funding on performance of Afro hair salons. There is limited research into the influence of public funding on the performance of SMMEs especially Afro hair salons as existing literature does not distinguish private from public funding sources in this industry. That said, Laosirihongthong, Prajogo and Adebanjo (2014:1232) insist that financial resources are among the prime predictors of firm performance although they do not necessarily categorise the types of funding of various hair salons.

LITERATURE REVIEW

Public funding

Public financing is defined as the various means through which government intervenes to fill/close the funding gap left on private financing (Storey, 2003:483). The importance of public financing lays in its assistance of small businesses that do not have access to private funds (e.g. banks, micro lending etc.) because of imperfect information, information on financial accounts, sales volume and customer base. There are, however, arguments regarding public financing, one of which is the inefficient use of public funds that support non-viable ventures (De Meza, 2002:19; Storey, 2003:480). There are number of supporting programmes that are available in the South African context that Department of Trade and Industry (DTI) has identified which are: Khula Enterprise Development Fund (Khula), the National Youth Development Agency (NYDA), the small Enterprise Development Agency (Seda) and the Tsumisano Trust (NCR, 2011:38). These interventions help afro hair salons to get access to public funding including other owners/managers who wish to start or expand small to medium sized businesses. From observation most of these afro hair salon in Mangaung Metropolitan Municipality are not aware of these programmes available to them. As a results it becomes a problem for the government to fund SMMEs in the hair salon industry as this industry is dominated by foreign immigrants.

Khula enterprise was established to give financial assistance to individuals that wish to start or expand their small to medium sized businesses such as afro hair salons that do not have enough collateral or security to support the loans they make from banks (NCR, 2011:38). Khula provides guarantee to registered commercial banks and other private sector financial institutions to help finance the SMME sector (Mutezo, 2005:43). "The guarantee serves as collateral for SMMEs, and is based on a risk sharing arrangement, whereby Khula assumes a portion of the risk associated with lending to the SMME sector (Rwigema and Venter, 2004:396). SEDA's role in SMMEs particularly afro hair salons is to render a well-organized, effective promotion and support to them in order to contribute towards the economic growth in South Africa as well as the economy as whole and it provides promotion and development for SMMEs (Mutezo, 2005:44). Most of afro hair salons in Mangaung Metropolitan

ISBN: 978-0-620-71797-7

Municipality may not be aware of these organisations that are there that should give advice and support in terms of financial assistance, and the lack of awareness of the existence of these initiatives affects the access to funding. Although finance is available from these initiatives it will not be accessed by the afro hair salon owners/managers that need it most because they do not know about the programs that are in place. Another constraint is that Afro hair salon owners/managers do not know the procedures for applying for loans and the sources of finance that are available from the banks.

The relationship between financial resources and performance is affected by expansion strategies and moderated by growth and expansion jointly (Mahasi, Awino, Pokhariyal, and Ombaka, 2013: 451). They elaborates that there is a direct relationship between firm resources and firm's performance.

Our speculation is that small firms may not have the capacity and will to pursue public funding due to information asymmetries in SMMEs, limited access to information on funding procedures and the complexity of accessing competitive public funding.

FIRM PERFORMANCE

Financial and non-financial indicators have been suggested as the measures of performance. Profitability is the most important measure of performance that must be considered because the firm growth cannot be sustained without profits being accessible for reinvestment within the firm (Fitzsimmons et al., 2005). Growth along this measurement can be considered in terms of net profit margins or return on assets. Other views are given by Delmar et al (2003), who argue out that while profits are an important indicator of success for the enterprise, the relationship of profits to size is only obvious in aggregate of firms or over long periods for individual firms.

THEORY OF FINANCE

Pecking Order Theory (POT)

Aabi (2014) indicates that information asymmetries between a company (SMMEs) and its financial partners are responsible for the existence of a pecking order in the financing and the theory related to it. The Theory of Pecking Order speaks to an immediate need for funding in a context of asymmetric information. The theory is based on the existence of a pecking order and provides a coherent explanation for choice in company finance-be it internal or external, public or private. A company should rather focus on internal sources of financing before resorting to external financing or investors to the company (Aabi, 2014) due to the relative ease with which internal funds (personal loans from relatives, friends) can be generated compared to external sources.

More so, the company must follow a hierarchy of financing, controlled by the need for external funds. In most cases, 'financing by internal funds should be promoted compared to financing by external funds, according to the following hierarchy: cash flow/debt/issue of shares' (Myers and Majluf 1984). At this level, it is necessary to clarify the hierarchy of funding, driven by the need for external funding if a firm follows the theory of the Pecking Order. The Pecking Order theory advocates business leaders to decide whether to act according to their risk averseness or for their daring personalities – hence the business owner/manager may decide to maximize the shareholder's wealth, or to act in his own interest. In both cases, the owner/manager acts to maximize the benefit of certain members of the company (Aabi, 2014).

PROBLEM BACKGROUND

Small, micro and medium enterprises (SMMEs) play a key role in economic development and make an important contribution to the employment (Harash, Fatima and Essia, 2013:29; Harash, Al-Timimi and Alsaadi, 2014:292). Financial access is important for Afro hair salons growth and development and the availability of external finance is positively associated with growth and productivity. Yet access to financial services remains a thorny issue for most Afro hair salons' growth and development in Mangaung Metropolitan Municipality (GPFI, 2011:9), even though public financing should be considered desirable for improving performance (Cecchetti and Kharroubi, 2012:1) of small, micro and medium enterprises (Beck and Demiguc-Kunt, 2006:2940; Mohd and Peou, 2010:57; Mohd and Peou, 2008:59).

The overemphasis on financial variables in the SMME particularly Afro hair salons performance is explained by the fact that access to institutional finance still remains difficult for most Afro hair salons (Eresia-Eke, 2013:762). The author argue that having financial constraint hampers the growth and formation of the enterprises. Furthermore, the issue with the financial access has become the banner of the performance discourse and recourse of finance is essential for the business.

Lack of financial resources can amount to a serious obstacle to Afro hair salons' development (Maurel, 2008:18). The lack of equity capital investment in Afro hair salons in Mangaung Metropolitan Municipality makes these businesses more dependent on other sources such as bank lending and other types of financial support (Beck and Demirguc-Kunt, 2006:2941). It is important to realise that financial resources are crucial for Afro hair salons and their absence undermines their survival. Even the management of the business is often determined by the availability of financial resources, the absence of which is often reported as the major obstacle experienced by businesses (Brink and Cant, 2003:15).

Existing literature shows that financial growth matters for the successful performance of a firm (Fafchamps and Schundeln, 2013:15). Some studies have shown that SMMEs in developing countries have problems in accessing finance since banks are their main source of external finance (North, Baldock and Ekanem 2010:173). Since most Afro hair salons are considered to be not financially viable, applying for bank loans is a difficult process as owner/managers cannot qualify for loans. As a result the start-up capital is very difficult to accumulate to start trading and to fund growth. Despite this open acknowledgement of the importance of financial resources, lack of financial resources of hair salons has been given less attention in business literature. A few exceptional studies, have however, emphasised the influence of finance in business performance but they do not distinguish the influence of public financing on Afro hair salon performance. Fatoki (2014:1) states that financing is needed for new enterprises for both start-up and growth as well as investing in new staff.

Afro hair salons industry they have had many experiences. Onsongo and Muturi (2015:2) states that hair salon operations are seen as unprofessional practices and something that an individual does because they do not have a choice for getting an income. According to these authors, hair salons lack quality information, access of credit, market for their products and poor market research. Furthermore, they state that despite all the experiences they still play a significant role in providing job opportunities for many people. That said, Winnie (2005) warn that most hair salons employees never sign up employment contracts and the owner/managers never motivate their employees to do better in their jobs. Most compelling evidence shows that many of school drop outs and failures are the ones that purse career in this industry (Stephanie, 2002). According to Onsongo and Muturi (2015:2), most of the hair salon employees move from one hair salon to another, they normally migrate with their clients in retaliation and this complicates their capacity for financial sustainability.

PROBLEM STATEMENT

Most of these studies make unsubstantiated assumptions associating low financial capital with poor performance and ignore the most complex parameters of the relationship between public financing on performance of SMMEs. It is a challenge to obtain literature that directly links poor public financing to firm performance (Fafchamps and Schundeln, 2013:16). However, it is known that if SMMEs cannot find enough funding to sustain their enterprises, opportunities will be snatched by other enterprises. To further compound this challenge of "scotched earth" (non-selective) approach to the funding-performance relationship, the inaccessibility of literature on the influence of public funding on the performance SMMEs especially Afro hair salons, presents an opportunity for a systematic

ISBN: 978-0-620-71797-7

investigation into this matrix. The challenge for this paper therefore is to find out how public financial resources influences performance of SMMEs especially Afro hair salons.

OBJECTIVE

The objective of the study was to establish how public funding influences the profitability of Afro hair salons.

METHODOLOGY

This paper adopts an empirical stance. Empirical research "is used to express the results of quantitative scientific data on real world phenomena" (Pasek, 2012). The justification for this paper is to determine the influence of public finance on the performance of small businesses in the hair salon industry. The study adopts a quantitative approach. The aim of this paper is to explain the relationship between the public funding and firm performance.

Population, sampling, data collection and analysis

The scope of the empirical enquiry was limited to SMMEs particularly Afro hair salons in the Mangaung Metropolitan Municipality in the Free State Province of South Africa. There are about 500 Afro hair salons in this Municipality. The sample of 150 Afro hair salons was drawn from the population using sample size calculator. Simple random sampling was adopted for the study. Simple random sampling ensures that each element of the population is given an equal chance of being selected in the sample (Zikmund, Babin, Carr and Griffin, 2013:396). The researcher used simple random sampling to select Afro hair salons and this means that each Afro hair salon has an equal chance to be selected for the study.

In conformance with the quantitative design, the measurement instrument is a structured questionnaire, which was distributed to and completed by the respondents. For Dzansi and Okyere (2015), "the determination of what is to be measured should flow from the research problem and objectives of the study". The data which was collected was analyzed using the latest version of statistical package for the social sciences (SPSS). The data analysis that was used is descriptive analysis. Descriptive statistics was used to describe characteristics of the study subjects (Neuman, 2011:386).

Validation of the questionnaire

The self-constructed, structured questionnaire instrument was validated for reliability using Cronbach's alpha, which resulted in a value of 0.937, therefore the questionnaire was regarded as reliable.

ISBN: 978-0-620-71797-7

TABLE 1
DEMOGRAPHIC PROFILE

Biographical Information	Category	Frequency	Percentage
Q1.Gender	Female	51	46.4%
	Male	59	53.6%
Q2.Age	< 25 Years	12	10.9%
	25-34 Years	61	55.5%
	35-44 Years	27	24.5%
	45-54 Years	8	7.3%
	55 and Above	2	1.8%
Q3. Home language	English	1	0.9%
	Afrikaans	3	2.7%
	Setswana	13	11.8%
	Sesotho	17	15.5%
	Xhosa	10	9.1%
	Zulu	5	4.5%
	Other Language	61	55.5%
Q4. Other languages	Shona	30	49.2%
	Igbo	9	14.8%
	Swati	1	1.6%
	Hausa	8	13.1%
	Yoruba	8	13.1%
	Ndebele	3	4.9%
	Tsonga	2	3.3%
Q5. Nationality	SA Citizen	53	48.2%
	SA Perm Res	1	0.9%
	Non SA Citizen	56	50.9%

The first demographic which is the gender of the respondents of Afro hair salon on Table 1 shows that male participants dominated the study with (53, 6%-59) as compared to females who made up (46.4%-51). The gender in this industry is dominated by males as compared to females. This finding is surprising because Afro hair businesses has always been seen as a female domain.

The second demographic is the age of the respondents on Table 1 shows that about (55.5%-61) of these Afro hair salon owners/manager a youthful population aged between 25-34 years. This finding will satisfy the policy makers due to the national priority.

The third demographic is the other language with the percentage of (55.5%-61) which clearly shows that South Africa has official languages that are spoken by the people, which is good.

Table 1 also indicates that there are other languages that are spoken in South Africa and the highest of them is the Shona language with (49.2%-30). The stats shows that there are more Shona's in South Africa, it shows that most of the Afro hair salons are owned/managed by foreign immigrants.

It has been reported that South Africa has been dominated by foreigners especially in small businesses, which normally led to fights between the South Africans and the foreigners whereby South African accuse foreigners of taking their jobs (Nkealah, 2011). Table 1 shows that majority of the respondents (50.9% -56) were non-South African citizens and South African citizens who owned/manages Afro hair salons (48.2%-53).

Accessibility of public funding

Results in Table 2 show that the most accessible public institution offering funding is NYDA funding with 4.6% of the respondents indicating that it is the most accessible, 14.7% indicating that it is fairly accessible and only 35.8% indicating that it is not accessible. Khula enterprise and Tsunamo trust funding are the least accessible public funding institutions as indicated by 74.5% of the participants in both cases. Access to finance, generally defined as the share of households and firms that are able to use financial services if they choose to (Rojas-Suarez, 2010). In particular, financial access allows individuals to acquire financial services such as credit.

TABLE 2
ACCESSIBILITY OF PUBLIC FUNDING INSTITUTIONS

Public institutions where most of the seed funding had been accessed		Frequency Distribution						Descriptives		Latent Factor Coefficient
		Not accessible	Less accessible	sometimes accessible	Moderately accesible	Fairly accessible	Most accesible	Mean	Std Dev	
Accessibility of Khula enterprise funding	Count	82	13	9	3	2	1	1.48	0.99	0.819
	%	74.5%	11.8%	8.2%	2.7%	1.8%	0.9%			
Accessibility of NYDA funding	Count	39	15	20	14	16	5	2.71	1.62	0.508
	%	35.8%	13.8%	18.3%	12.8%	14.7%	4.6%			
Accessibility of SEDA funding	Count	45	19	20	17	6	3	2.35	1.42	0.653
	%	40.9%	17.3%	18.2%	15.5%	5.5%	2.7%			
Accessibility of Tsumisano trust funding	Count	82	10	15	3	0	0	1.45	0.83	0.847
	%	74.5%	9.1%	13.6%	2.7%	0.0%	0.0%			
Accessibility of public credit schemes funding	Count	74	21	12	2	0	1	1.51	0.88	0.780
	%	67.3%	19.1%	10.9%	1.8%	0.0%	0.9%			
Accessibility of government agencies funding	Count	75	16	13	3	2	1	1.58	1.03	0.897
	%	68.2%	14.5%	11.8%	2.7%	1.8%	0.9%			
Accessibility of provincial government funding	Count	64	18	22	2	4	0	1.76	1.07	0.741
	%	58.2%	16.4%	20.0%	1.8%	3.6%	0.0%			
	Chronbach's Alpha							0.844		
	% of total variation accounted for by latent factor							57.63%		

Extent of public funding

Table 3 shows that NYDA is the biggest lender as claimed by 21.8% of the participants. Only 37.3% view NYDA as the least lender. Public credit schemes are the least preferred lenders (82.7%) followed by tsunami (81.8%) and then Khula (81.7%).

ISBN: 978-0-620-71797-7

TABLE 3
EXTENT OF PUBLIC FUNDING

Amounts extended by public institutions		Frequency Distribution: Least lender	Moderate lender	Third biggest lender	Second biggest lender	biggest lender	Descriptives: Mean	Std Dev	Latent Factor Coefficient
Khula enterprise finance as preferred lender	Count	89	11	4	5	0	1.31	0.75	0.666
	%	81.7%	10.1%	3.7%	4.6%	0.0%			
NYDA as preferred lender	Count	41	14	15	16	24	2.71	1.60	0.453
	%	37.3%	12.7%	13.6%	14.5%	21.8%			
SEDA as preferred lender	Count	54	17	20	14	5	2.08	1.26	0.502
	%	49.1%	15.5%	18.2%	12.7%	4.5%			
Tsumisano trust as preferred lender	Count	90	13	5	2	0	1.26	0.63	0.862
	%	81.8%	11.8%	4.5%	1.8%	0.0%			
Public credit schemes as preferred lender	Count	91	13	4	2		1.25	0.61	0.858
	%	82.7%	11.8%	3.6%	1.8%	0.0%			
Government agencies as preferred lender	Count	87	11	3	4	3	1.38	0.92	0.779
	%	80.6%	10.2%	2.8%	3.7%	2.8%			
Provincial government as preferred lender	Count	75	23	5	1	3	1.45	0.86	0.746
	%	70.1%	21.5%	4.7%	0.9%	2.8%			
	Chronbach's Alpha						0.764		
	% of total variation accounted for by latent factor						50.62%		

Business Profitability

Table 4 shows results of the respondent’s views on the effects of public funding on profitability. A slight majority believe that public funding has led to business growth (64.5%) and helped the business meet its financial obligations (53.6%), and led to increase in gross profit margins (54.1%). 51.8% of the participants claim agree/strongly agree that generation of profit income can be attributed to public funding whilst 52.8% believe that public funding has helped their businesses to grow.

TABLE 4

BUSINESS PROFITABILITY

Profitability		Frequency Distribution						Descriptives		**Latent Factor** Coefficient
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	%Agree/ Strongly Agree	Mean	Std Dev	
Public funding has led to growth of business	Count	12	9	18	48	23	64.5%	3.55	1.22	0.685
	%	10.9%	8.2%	16.4%	43.6%	20.9%				
Public funding helped the business to meets its financial targets	Count	10	12	29	38	21	53.6%	3.44	1.18	0.727
	%	9.1%	10.9%	26.4%	34.5%	19.1%				
Public funding has led to the increase in gross profit margin	Count	12	11	27	39	20	54.1%	3.40	1.22	0.725
	%	11.0%	10.1%	24.8%	35.8%	18.3%				
Public funding has led to the generation of profit income	Count	13	8	32	36	21	51.8%	3.40	1.22	0.735
	%	11.8%	7.3%	29.1%	32.7%	19.1%				
Private funding has helped the business to grow	Count	20	8	23	36	21	52.8%	3.28	1.37	0.768
	%	18.5%	7.4%	21.3%	33.3%	19.4%				
Private funding has helped the business to meet its annual financial target	Count	21	5	29	33	20	49.1%	3.24	1.35	0.782
	%	19.4%	4.6%	26.9%	30.6%	18.5%				
Private funding has led to the increase in gross profit margin	Count	22	7	24	35	22	51.8%	3.25	1.39	0.792
	%	20.0%	6.4%	21.8%	31.8%	20.0%				
Private funding has helped business to generate profit income	Count	22	8	28	30	22	47.3%	3.20	1.39	0.802
	%	20.0%	7.3%	25.5%	27.3%	20.0%				
	Chronbach's Alpha							0.891		
	% of total variation accounted for by latent factor							56.68%		

DISCUSSION

The data presented in Table 2 illustrates that there are some of Afro hair salons owner/managers that managed to get funding from the NYDA for either their start-up capital or sustaining their enterprise. These stats shows that few of the Afro hair salon owner/managers do get funding from the public agency which is NYDA. The findings cohere with the works of NCR (2011) which reported that NYDA assist SMMEs with loans to meet their start up and operational needs.

The results of the study also indicate that most owner/managers find NYDA not accessible. It is plausible that to the extent that most Afro hair salons are owned by foreign immigrants, they are considered are as ineligible for public funding hence the difficulty in accessing government funding. The fact that NYDA is considered the most accessible for locals resonates with the claim of the NYDA (2016) that it provides financial support to new ventures or established businesses seeking to expand their operations even though such funding is only available to South African citizens only. This statement clearly shows that the foreign immigrants are left out from the funding, which is unfair to them as they contribute to job creation (Seker, 2009).

The results of Table 3 demonstrates that most public agencies are regarded as least lenders because they do not give opportunity to the foreign owned enterprises to give funding. The difficulty in accessing such funding may be attributed to information asymmetries between public financiers and those starting their own businesses. If limited access to public funds are a consequence of information gaps then this findings has resonance with Thusong Service Centre (2016) Report which reported that government development communication initiatives can be tracked back to the historical, social and economic factors that characterized freedom of access to information, which explains the limited culture of information sharing between the government and the public entrepreneurs. The Task Group of the Policy Board for Financial Services and Regulations (2016) concurs that lack of access to information is a major barrier to most SMMEs when it comes to the applications for funding and there is not enough information about the SMMEs turnover and profitability which makes it difficult to give them funding.

The results on Table 4 shows that most Afro hair salon owners/managers believe that having access to public funding helps their businesses to meet their financial obligations and increase their business profits. This finding agrees with the literature that the success or level of business performance of an enterprise can be measured by the enterprise's growth in terms of sales turnover, profits, rates of return on investments, if there is enough funding the enterprise to help (Alasadi and Abdelrahim 2007) In the study of the influence of external stakeholders and expansion strategies on the relationship between organisational resources and firm performance by Mahasi et al. (2013) agree that there is a direct relationship between firm resources and firm's performance, because firm resources are the independent variable while the firm performance is the dependent variable. That said, having financial assistance within the Afro hair salon will result in the business improving their performance by generating more profits and having financial viability helps the enterprise to perform better.

IMPLICATIONS FOR FURTHER RESEARCH

Future studies should focus more on strategies for loosening the regulations and policy when it comes to accessing public finance for SMMEs particularly hair salons. Other studies should target devising strategies for broadening access to finance for foreign immigrants owned enterprises living in South Africa. Diversifying their funding is critical to their business survival and sustainability since such businesses contribute extremely to the economy of South Africa by creating jobs and reducing poverty.

RECOMMENDATIONS

- Improve the accessibility of public funding through enhanced efficiency of brokerage services to facilitate networking, building of associations and project funding.
- Develop growth-oriented approaches to funding by facilitating the transition from grants-based models to revenue generation and self-sustenance.
- Institute improved investor programmes and venture forums to support SMMEs businesses.
- Promote early talent and innovation identification through developing nascent entrepreneurial and fund generation skills to develop alternative market pathways for financial stability that go beyond grants.

CONCLUSION

Given the often indiscriminate treatment of private and public funding as they impact the performance of firms, this study sought to isolate public funding to determine how it impacts the performance of Afro hair businesses. The findings demonstrate that although foreign owned business has limited access to public funding, NYDA was the main source of public funding for SMMEs in the Afro hair salon business. Despite the clear positive relationship between public funding and performance of SMMEs, it is clear that private funding seemed to have more influence on firm performance than public funding. Public funding contributes to the business profitability. We know that SMMEs are the ones that provide job opportunities, not having finance for start-up or sustain the enterprise then hair salons are likely to go out of business due to the financial constraints that they face.

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