

# Entrepreneurship & Knowledge Economy

## Assessing Entrepreneurship in Urban Micro Enterprises in Sri Lanka

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### **BACKGROUND**

The role of microenterprise in achieving economy's growth promoting social, economic and human development is increasingly being acknowledged in developing as well as developed world (Green; Kirkpatrick, and Murinde, 2006). It includes a wide range of development objectives such as creation of income, wealth and employment (Daniels, 1999); income distribution and reduction of poverty (Liedholm and Mead, 1999); production and supply of goods and services that meet the basic needs of the poor (Cook and Nixon, 2005); creation of seeds of industrialization (Grosh and Somolekae, 1996; The World Bank, 2004). Moreover, the growth and competitiveness of enterprises of the informal sector are positively related to the growth of the formal sector through production linkages (Pieters et al., 2010). Despite some of the contradicted challenges, microenterprises' contribution on its potential role in the process of development have been signifying in many countries (Levy, 1995; Mullei, 2002; The World Bank 2013). Therefore, the microenterprise approach to the informal sector has been accepted as a policy based approach that takes micro entrepreneurs as the core of the informal sector which needs help to become growing, self-sustaining businesses in order to contribute significantly to foster economic growth, generation of productive employment and poverty reduction (Gunatilaka, 2008; Mead and Liedholm, 1998; Pisani and Patrick,

2002; The World Bank, 2013). However, these long lasting objectives suggested by the scholars and international development bodies come true only with graduation of microenterprises.

Graduation of microenterprises is a result of a combination of very complex subjective as well as objective multidimensional matter related to psychological, socio economic, political and regulatory environment. Majority of researchers suggested the access to formal banking sector, level of education, age of the business, stage of the owners' domestic cycle, ownership of assets, availability of accepted collateral, market size technology and the customer base, are some of the stated complementary determinants which are influential in graduating microenterprises towards national contribution of reducing poverty with moving the country's economy ahead. However, recent literature provides substantial evidences on microenterprise failure even with provided complementary facilities leaving further room for exploring the reasons behind successes and failures (Buckley, 1997; Hulme and Mosley, 1996; Mosley and Hulme, 1998; Montgomery, 1996). Then it was identified that the firms are more internally constrained. In other words, entrepreneurship is the key to enterprise development (Green et al., 2005; The World Bank, 2013). Lack of management and skills training can often hinder the success of their enterprises and expansion of these beyond micro businesses (Roy and Wheeler, 2003).

More than 60 percent of urban population in Sri Lanka employed in the informal sector while 70 percent of them are micro enterprises (Nanayakara, 2002; Ebert, 1999; Hettige 1989). The share of self employment in the microenterprise sector remained high at around 25% throughout the 1980s (Kelegama and Thiruchelvam, 2001) and at around 28% during last five years (Central Bank of Sri Lanka, 2004). Therefore, any development policy formulae have great deal with urban micro enterprises in Sri Lanka. It is reported that the most significant constraint within micro enterprise sector in Sri Lanka is the lack of entrepreneurship. (De Mel, 2006; Fairoz et al, 2010;

Green et al,2005; Sri Lanka Chamber of Small Industries, 2005). Therefore, it is vital to identify underlying causes that hinder entrepreneurship before any policy intervention. Given this background, this paper aims to analyze the level and the determinants of entrepreneurship of urban micro entrepreneurs in urban Sri Lanka.

## **METHODOLOGY**

Under non-experimental research design, Multi Stage Cluster Sampling Method was used for the study. From 48 wards of Colombo Municipal Council (CMC) the most USS concentrated 6 wards were selected so that all the categories of USS are represented. From the selected wards geographical clusters were selected and then enumeration areas were selected from each cluster. Finally, random samples of micro entrepreneurs were selected. The main survey tool of the study was questionnaire which consisted close ended questions. Self administered method was used for a part of the field survey whilst interview method played a major role.

Since the multifaceted nature of the concept of entrepreneurship and its complexity as well as its sensitivity to local cultural and socioeconomic conditions, therefore, reliance on one dimension, one indicator, is not recommended. Hence, the basic format of the model is Latent Structure Analysis, splitting up many characteristics in to sub groups to represent dimensions of a general concept. In this context, 24 entrepreneurial roles were considered, of which 15 were related to Entrepreneurial Self Efficacy (Chen et al, 1998) and the remainder were related to locus of control (Rotter, 1966) to measure entrepreneurial skills. Performed Principle Component Method (PCM) based retained components were used in constructing latent variables from manifest variables whose original values were of five point scales ranging from one (completely disagree ) to five (completely agree). Scale agreements were set using reverse scale for some items. To reduce entrepreneurship roles to a few dimensions

PCM with varimax rotation was used. Orthogonal rotation is used in order to obtain mutually independent dimensions with a clear interpretation. Further, the resulting non-rotated composite was used as a dichotomous dependent to quantify predictors (Gender, Age, Education, Parents' occupation, by tradition, firm size, and firm age) of entrepreneurship by utilizing binary logistic regressions.

## RESULTS AND DISCUSSION

Descriptive statistics showed that the majority of the sample consists of males (79 %) while female representation is only a small fraction (21 %). It was observed that approximately half of the entrepreneurs were of the 18 – 40 age groups, while a higher proportion, 26.4 percent, is in the age groups of 30- 40 years. Only 3 % of the entrepreneurs were illiterate, while 7% of them were educated to primary level indicating higher level of educational attainment in the country.

Most of the micro enterprise operators are experienced enough in the same business or in the field. Approximately 85 percent of them have above two years experience while most of them have more than 10 years experience. 16.3 percent of them are very well experienced having more than 25 working years. 32 percent of the sample was salaried employees before starting the business while half of the surveyed entrepreneurs were unemployed previously. More than half of the micro entrepreneurs are self-employed employing no workers other than the owner. 26 percent of them have only one worker while the percentage of firms employing more than 4 workers is negligible. It was obvious that the majority of employees in one worker firms are family members. Only a small proportion, (10%), of micro enterprises have paid workers although mean age of a micro enterprise was 9.5. There cannot be seen a rational approach where most have entered in to the field because of family experience and according to the desire (72 %). Obviously, very few have conducted

any type of market research or competitive analysis of the market(s) in to which they wished to enter. Indeed, not one of the microenterprises interviewed had conducted a market survey before starting their enterprise (not even to evaluate the feasibility of their own enterprise).

Cornbach Alpha value is 0.6 or more for all the variables which is considered as commendable for reliability of the responses of multi point questions. Communality and KMO test shows the variable selection for Entrepreneurial Self Efficacy (ESE) and Locus of Control (LOC) is appropriate enough to reproduce correlations. The first component is good enough to represent extracting more than 30% of total variance. High value of KMO confirmed the relevancy of chosen indicators for best fitted PCA estimates. Communality or strength of linear association for every indicator is high extracting sufficient variance for components.

Marketing is highly significant while risk taking takes the second highest values for communalities. Set and meet market goals seem to play a crucial role in deciding the level of ESE (.842). Though the targets related to profit goals is highly significant it was not loaded heavily. Motivation for searching new markets and trying innovative products are shown very low loading, showing less contribution for the level of ESE. Some of the most important factors for an entrepreneur like achieving multiple targets under pressured environment are low as well for underserved settlement micro entrepreneurs. This factor has been confirmed to the micro entrepreneurs in general (De Mel, 2008). Because of the nature of this sector, competitive with homogenous products, if someone wants to grow more than the others he or she has to find new markets. This factor is also very weak within the sector.

From the reduced form results it is found that gender, parent's occupation or previous employment have no predicting power over the probability of changing entrepreneurship skill while favorable

change in all the other factors plays crucial role increasing entrepreneurs supply in urban informal sector.

Total scores of ESE and LOC regression on background variables show that the level of education is the most significant in explaining the dependent variable. Education is positively significant,  $\chi^2 (1) = 2.8$ , at one percent level of significance. Year change in education will lead to increase odds by more than twice; showing the fact that lack of education is a very discouraging factor that hinders entrepreneurship in the sector. Relative to female business owners male entrepreneurs are more internally controlled as measured by the Rotter Scale (Rotter, 1966). Gender is significant  $\chi^2 (1) = 3.6$  for the group interested.

## CONCLUSION

The role of micro enterprise in reduction of poverty, creation of wealth and generally promoting social, economic and human development is increasingly being acknowledged in developing as well as developed world. However these long lasting goals could be achieved only with graduation of microenterprises.

Graduation of microenterprises is mostly subject to the lack of entrepreneurial skills in the developing countries. This study further confirms this evidence for the urban underserved settlement micro enterprise owners in Sri Lanka. It was shown that the level of education in formal or informal is the most influential factor in determining the level of entrepreneurship in the sector. Findings suggest several practical implications. Firstly, it is essential to develop promotion-based training to overcome the issues related to knowledge, skills and attitudes. Secondly, for the micro entrepreneurs to become better performers, they need to become aware of the central importance of marketing and entrepreneurial skills.

To become a successful entrepreneur with a growth oriented firm it is essential to overcome the issues related to knowledge, skills and attitudes. Changing the mindset beyond the survival level and having high determination to achieve the set goals are crucial in this respect. Secondly, for the micro entrepreneurs to become better performers, they need to become aware of the central importance of marketing and entrepreneurial skills. Promotion-based training can be used to achieve this objective. These trainings must be entrepreneur-centered and should contain simplest approach to improve the required skills such as institutional approach, customer approach, strategic planning etc. Further, the designing of follow-up programs is essential to validate the use of such trainings. In complementary with effective trainings network building can be a useful way to improve skills and awareness. Government can encourage and get basic actions to setup new networks or connect USS micro entrepreneurs to existing micro enterprise networks so that they can gather, exchange and seek opportunities.

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