

Potential microenterprises entrepreneurship in urban informal sector in Sri Lanka

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Introduction

The typical feature of the informal sector, heterogeneity, is often created by simultaneous inclusion of urban poor people who depend on informal subsistence activities for their livelihood, as well as relatively higher-income people most of which are entrepreneurs running more profitable microenterprises that use capital and hire labor. These variations of firm size, firm life, profitability, growth potentials, as well as differential returns to physical and human capital can be largely explained by individual abilities, skills, capacities, motivations, resource acquisition and preferences (Mead & Liedholm, 1998; Cunningham & Maloney, 2001). Especially, these variations might be attributed to the involuntary entrance: either lack of any other viable option to generate a livelihood has been pushed to microenterprise sector (Tokman, 2007); excluded by the formal sector, motivated by the need of satisfying lower order psychological needs as described by Maslows' hierarchy of needs (Roy & Wheeler, 2006) or queuing for jobs in the formal sector (Levenson & Maloney, 1998; Gunathilake, 2008; Damayanthi & Premaratne, 2015). Since the final outcome depends on which basis they have been in, the understanding of the complexity arisen from the heterogeneity- by means of nature, structure, motivation, constraints and determinants of the current behavior- and identifying the potential niche of micro entrepreneurship are crucial for any strategy, policy interventions aiming at alleviating poverty and improve the economic welfare of the sector. Hence, the main objective of this study is to identify *de facto* typologies and potential entrepreneurship in urban informal sector in Sri Lanka.

Methodology

This study explores enterprise as well as entrepreneur information to identify underlying typologies. Thus, a non-experimental quantitative research was designed to use the variables as it appears in practice. As survey research method allows inclusion of a range of questions related to enterprise and entrepreneur aspects, the main survey tool of the study was questionnaire which consisted close ended questions. Considering the heterogeneity of the sector, semi structured interview method was seen as the best suited data collection method. Within this methodological setting, data were drawn from a stratified random

sample of 300 micro enterprises in urban underserved settlements (USS). Occupying the facilities provided by SPSS 22.0 data were primarily screened for wild codes, inconsistencies, outliers and influential cases and managed so that the statistical analysis can be done with minimum data distortions. The original data collections for this study consisted of measurements of ratio, nominal and scale. They were meaningfully recorded so that the requirements of the statistical models are met. Since there is no distinction has been made between dependent and independent variables from the study objectives, and the strategy that searching for dimensions proceeds in the absence of a prior basic structure was required, Q analysis was performed under Ward's hierarchical clustering method. Then it could investigate for each two micro entrepreneurs to what extent they resemble each other making use of their scores on root variables.

Results and discussion

Entrepreneurs in cluster one are relatively older group; they are on average 10 years older than the youngest with mean age of 49 years. They work the least number of hours a month compared to any other group, apparently earning the least and therefore the poorest. They revealed lower educational and least entrepreneurship skills as well. Majority is previously unemployed while least rational selectors were presented in this group. This cluster shows the lowest awareness level as well. Desire and experience are the major deriving forces in the cluster while the majority has entered to the sector because of the difficulty of finding another job.

Since the majority of entrepreneurs in cluster one is previously unemployed it can be seen involuntary entrance due to lack of opportunities in the formal sector. This is often called as labor market segmentation which describes the insufficiency of job opportunities for the lower belt of the market. This implies that there are no sufficient job opportunities for the people who have low level of education and experience. Thus they have entered in to this field at very young ages. Then they have adopted to do very simple less technical lower end economic activities in order to provide food for the family though it is not sufficient but having satisfying behavior. This is indicated by several factors. The basic findings show that the entrepreneurs in cluster one are hardworking, earn less, poor but they have been in the sector for a long time period. Although they are the longest lived firms, more than 50 percent of the firms are above 10 years while one fourth of them are above 25 years, firm size is very low. Majority of them are self-employed from the beginning to more than 15 years showing no graduation. Further, regardless of the firm age, working site is temporary for the majority. This clearly confirmed their unwillingness to grow. Low educational level and high rate of unemployment presumed that they have no accumulated

human capital while high poverty rate confirmed low level of physical capital as well. Even though they earn less they have stated that they do not need funds to improve business while they have least complaints on business problems. Further, they do not have strong vision to improve the enterprise as well. These evidences clearly show that enterprises in this segment are "survival".

Cluster three is least educated, oldest, retired and hard working group with low earnings. More than 50 percent of them are above 50 years and are at mature stages of domestic cycle. Very low level of education is considerable. "No schooling" is highest (27.6%) among them whilst more than 75 percent them have only primary or below. Regardless of the age they are considerably less experienced in the field. Majority of this group had had salaried jobs compared to the other clusters. This group is fairly volunteer to the field as well. Firm size is the lowest with highest percentage of self-employees and more resembles cluster one in many other aspects. This cluster clearly represents "survive forever" firms. The headed theme of running a firm is not to be a dependent. They are surviving putting no burdens to the government. They are neither consumption constrained nor no credit constrained. Further, people in this group are not vulnerable. That is they have no competition between firm and the day today life needs.

The rate of motivation to become successful entrepreneur is least among the entrepreneurs in these two clusters. Since they had involved in hardworking labor employments they might not be physically wellbeing in efficient / active working. Especially, they cannot be taken into the productive field changing their vision because they are not ready for those attitude changes with the age level. Nevertheless, their entrepreneur skills are very low. Therefore they have to be trained intensively for a growing firm. The possibility of getting effective and dedicative training is least for this group with their socio economic, family background and specifically with low educational level. Thus, motivation would be impossible for them. All in all, these groups are not viable entrepreneurs that could be motivated to forefront in order to achieve objectives of microenterprise sector to the economy.

It was indicated that the entrepreneurs in cluster two is more educated hard working and rich. Mean age is 42 years while more than 75 percent of them are below 50 years of age of which half represents 40 years or below. Education level is very high with a considerable percentage of graduates. Entrepreneurial self-efficacy is very high for them. Marketing ability is higher for them with very strong ability of establishing goals. Fairly high risk taking capacity and therefore are innovative. Considerable share of the sample had done salaried jobs before entering in to the microenterprise sector. They are the largest firm owners in the sector. This group reports the highest rationalists in activity selection while the

awareness level is also high compared to the other groups. Motivation to the sector is backed by the difficulty of finding a job and to be independent. However, this group strongly believes that enterprise income is higher than a salaried job. Almost 90 percent of the entrepreneurs in this segment have permanent business premise. Formal banking connections to start as well as for further funds are higher for this group. Further they like to become formal and to get bank loans to improve the business. Competitiveness, general economic downturns and credit have been pointed as major problems.

These basic findings clearly imply that cluster two is the most viable entrepreneurs in urban microenterprise sector. They are credit constrained though they are perfectly not “entrepreneurship is in the belly”. Considerable proportion has effective need to become entrepreneurs. However, it is an essential requirement in forming policies to develop skills and change attitudes complementary to enhancing credit facilities. Competitiveness is the major problem which could be a resulting impact of low motivation towards new markets, low levels of risk taking. Nevertheless, marketing strategies are very weak in the group. They must be trained sufficiently to use credit facilities successfully to graduate the firms to attain economy wide goals, but not a challenging issue.

Cluster four is the largest of the subgroups with the youngest entrepreneurs and with youngest firms. They have better earnings though not the highest. This group is working moderately, more educated and a sort of resemble to cluster two. Majority of the members are skilled entrepreneurs but least likely to take risks. Therefore, innovation is low. They reported a sort of internally controlled in nature and more dependent on outside advices and supports in the decision making process. They have high willingness to grow but competitiveness and general economic constraints. They clearly show that they are credit binding with shortage of knowledge. Therefore, entrepreneurship skill development with increasing awareness is key to make these firms to be graduated. Demand is not a key issue for them but competitiveness. This might be attributed to the fact that they are not neither risk takers and apparently nor innovators. Innovativeness, in the sense introducing something new or marketing with a considerable diversification etc. are crucial to reduce completion within the sector. The nature of the business naturally traces out or makes failure the undiversified productions. It is evident that this group is at a transitory period. Thus they will be in the sector as long as they are unemployed. This group represents the majority of the sample containing 42 percent shows a great possibility to become successful entrepreneurs provided the required complementarities. It was quite interesting that cluster four is approachable with entrepreneurial dynamics which can be

acquired by the education. However, the essential skills are needed to be developed in order to make them remain in the sector as effective entrepreneurs.

Conclusion

Results from five cluster solutions suggested the segmentations within the sector. According to characteristics of the cluster membership, cluster one is “survival” while cluster three is “survival forever” and cluster five seemed to be “self-sufficient”. Survival or survival-forever groups cannot be assisted for the growth due to their setup and other related characteristics while self-sufficient group has least capacity to expand within the micro context. All three groups are therefore falls in to the category of “non-optimizing” in nature showing the least possibility of growing. However, cluster two and four are cases to be concerned. Cluster two and four are growth oriented and hence potential groups that could be finalized as the viable micro entrepreneurial blocks which have greater potential to grow with the complementary assistances.

Keywords: *Micro enterprises; Q analysis, urban informal sector; ward’s hierarchical clustering.*

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