

## **Analysis of Determinants of Business Performance in Micro Enterprises - A Special Reference to Matugama Area**

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### **Introduction**

Micro enterprises play a vital role in the economy of Sri Lanka. Micro enterprises have been recognized as an important strategic sector in Sri Lanka for generating high economic growth, reducing unemployment, inequality and poverty. The Government in its top priority has recognized the importance of this sector in achieving a balanced economic growth, equitable regional distribution and increasing employment and productivity levels, and has adopted various policies for the development of micro enterprises in Sri Lanka. Micro and small enterprises contribute to the economic growth through several pathways including employment generation, poverty alleviation, reducing income disparity, entrepreneurship development, economic dynamism, linking the value chains and social development. Due to these facts micro and small enterprises are considered as the engine of economic growth in Sri Lanka.

The number of people engaged in micro and small enterprises increase as a result of new enterprises being started and the expansion of existing activities. According to the traditional theoretical arguments, business performance of Micro enterprises mainly depends on some defined determinants of the business performance. Matugama is a developing area where most of the people tend to start their own businesses rather than working for a monthly salary. Therefore, it is relevant to analyze the determinants of the business performance of micro enterprises with reference to the Matugama area. Accordingly, this paper is an effort to quantify the above problem econometrically.

### **Methodology**

Mainly, primary data were collected by using a structured questionnaire. The selection of the sample was carried out by using the stratified sampling technique, allowing a representation from 5 strata of micro enterprises in Matugama area. The sample included 10 Owners (20% of the sample) from each category. In case of analyzing the data, the following regression model was established.

$$\text{Profit} = \beta_0 + \beta_1 \text{capital} + \beta_2 \text{age} + \beta_3 \text{experience} + \beta_4 \text{education} + \beta_5 \text{loans} + \beta_6 \text{employees} + \beta_7 D_1$$

In this model, organizational profit becomes the dependant variable which represents the performance of micro enterprise businesses. Analysis of data helps segregation of the factors that lead to business performance. "Profit" stands for a financial gain, especially the difference between the amount earned and the amount spent in buying, operating, or producing something.

The determinants of the business performance (independent variables) of micro enterprises considered in this study include Capital, Age, Experience, Education, Loans, Employees and Gender. Business owners were selected on the basis of simple random sampling process. Data were analyzed by using descriptive statistical techniques such as bar charts, pie charts and tables and the econometric analysis of Ordinary Least Squares method. Basically, multiple regression analysis was done in order to identify the determinants of the business performance.

Further, the profit of the micro enterprises was used as a proxy for their performances and Initial level of investment, Age, Experience, Education, Loan facility, Number of employees and Gender were considered as independent variables.

### **Results and discussion**

Regression results show that there is no significant effect of initial investment level on performance of micro enterprises even though there is a positive relationship between considered variables. In other words, there is no difference in the performance of businesses when the initial investment is either high or low. The results show that there is a positive and significant effect of experience, education, loans and employees on the business performance while there is no significant impact of capital, age and gender on the performances of micro enterprises. The research recommends a strong emphasis on significant factors in policy planning in order to ensure a sound business performance in micro enterprises. According to the results of the analysis, 'Age' has a negative effect on profit and it is not statistically significant.

The regression result indicates that there is a negative effect of age on profit. When the age of the owner is increased by one year, the average changes in profit are decreased by 1425.961 units. According to the regression statistics, age is not significant at the 5% confidence level. Hence it emphasizes that the age is not a considerable barrier to perform successfully in a business.

Moreover, the result suggests that there is a positive and significant effect of experience on profit. When experience is increased by one year, the average changes in profit are increased by 40786.91 units and this is statistically significant ( $P < 0.05$ ).

Further, the regression results indicated that there is a positive and significant effect of education on profit. When education increased by one year, the average changes in profit increase by 160266.3 units. Hence, results suggest that there is a positive and significant effect of experience on profit. What it emphasizes is that when the number of years of experience is increasing, the profit is also increasing.

The independent variable, Education is also statistically significant at 10%. The theory says that greater complexity emerges when one examines the relationship between education and micro enterprises growth. The results revealed that there is a positive and significant relationship between education and profit of the micro enterprises. That is, higher the education levels of the owners, higher the ability of managing the firm well in case of accomplishing the firm objectives.

The regression results indicated that there is a positive and significant effect of loans on profit. When loans are increased by one unit, the average changes in profit are increased by 1025963 units and this is statistically significant at 5% ( $P$  value-0.035).

The regression result indicated that there is a positive and significant effect of employees on profit. When employees increased by the one unit then the average changes in profit increase by 540075.6 units. According to regression statistics  $P$  value (0.000) of the employees is less than significant level at 1%. Employees are significant at 1%.

Regression equation shows that dummy variable has a positive and statistically not significant effect on profit which indicates that male business owner's performance is

higher than the female owners. According to regression statistics P (0.900) value of the gender is more than significant level.

Theory says that the relationship between gender and business performance is complex. While there are no significant differences in profit margins, female-owned enterprises tend to grow more rapidly in terms of employment than male-owned ones. Gender-based regressions results also show that while there are common factors that affect the performance of both kinds of enterprise, but in this study regression equation shows that male business owner's performance higher than the female owners. The reason may be since the sample is more buyers of males (98%).

Analysis results suggest that there is a positive and significant effect of experience on profit. In other words, when years of experience is increasing, the profit also increase and since it is statistically significant, there will be a huge variation of business performance when the years of experience of the owner changes.

### **Conclusions**

The study results indicated that there is a positive and significant relationship between loans and profit of the micro enterprises. This says that the people who obtained more loans on behalf of the progress of the business have obtained more profit. Gender has a positive but statistically insignificant effect on profit which indicates that male business owner's performance is higher than that of their female counterparts. Even though there is not much difference, the profit of businesses owned by males will increase relatively higher than of female owners.

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