

The Financial Performance of Non-farm Microenterprises in Ghana

OLIVER MASAKURE, JOHN CRANFIELD and SPENCER HENSON^{*}
University of Guelph, Guelph, Canada

Summary. — This paper analyzes the effect of firm and other characteristics on the incidence and intensity of improved financial performance among non-farm microenterprises in Ghana, using data from the 1998/1999 Ghana Living Standards Survey (GLSS 4). The results indicate that firm characteristics, including urban and regional location, significantly affect the incidence and intensity of improved performance, but entrepreneurial characteristics are unimportant. The firm's capital stock does not affect the propensity and intensity of better performance, reflecting that the value of assets owned is low and insufficient to have a measurable impact on enterprise productivity and performance.

© 2008 Elsevier Ltd. All rights reserved.

Key words — Ghana, microenterprises, performance

1. INTRODUCTION

The importance of micro and small enterprises (MSEs) to the socio-economic development of low and middle-income economies is well documented (see, e.g., Chen, Jhabvala, & Lund, 2002; Daniels, 2003; Daniels & Mead, 1998; ILO, 2002; King & McGrath, 1999; Livingstone, 1991; Macharia, 1997; McPherson, 1996; Snodgrass & Biggs, 1996; UNIDO, 2003; Vijverberg, 1991). In the poorest economies, MSEs, and microenterprises in particular, are a major source of employment and income (Mead & Liedholm, 1998), especially for the poorest members of society. Thus, there is a great deal of interest in the performance of firms in the microenterprise sector and its scope to generate employment, both through new business start-ups and the expansion of existing businesses. The general picture the literature paints is of low productive capacity which is manifested in low rates of growth and high rates of attrition (ILO, 2002; Livingstone, 1991; Daniels & Mead, 1998; Mead & Liedholm, 1998; UNIDO, 2003).

In Ghana, on which this paper focuses, we define microenterprises as business activities employing not more than four persons (see Mensah, Tribe, & Wess, 2007). However the official definition rarely considers microenter-

prises on their own but together with small enterprises. For example, in Ghana, the official definition of micro and small enterprises is activities capitalized at not more than 10 million cedis (US \$9,506 using 1994 exchange rates) with a labor force of not more than nine persons (AfDB & OECD, 2005, p. 260; Bruks *et al.*, 2005).¹ The 1998/1999 Ghana Living Standards Survey reported that about 1.9 million households in Ghana operate a non-farm enterprise. Reflecting the fact that more than one enterprise may be present in a given household, there are estimated to be around 2.3 million non-farm enterprises, of which 1.1 million (44%) are in Accra and in other urban areas (Ghana Statistical Service, 2000a).

There is a considerable literature devoted to the constraints to microenterprise growth and the factors that determine rates of enterprise survival (see, e.g., King & McGrath, 1999; Livingstone, 1991; Mead & Liedholm, 1998; Snodgrass & Biggs, 1996). However, there is a paucity of studies focusing on the extent to which the financial performance of microenterprises is determined by sector, firm, and entrepreneurial characteristics. Here, “financial performance” refers to the capacity of an

^{*} Final revision accepted: December 12, 2007.

enterprise to generate a positive net cash flow from its operations over a specified period of time. While there are many attractions to working with estimates of income from microenterprise activities, such an approach is limited by the practical difficulties of accurately measuring and estimating financial performance (Daniels, 1999, 2001; Daniels & Mead, 1998; Fafchamps & Gabre-Madhin, 2001; Vijverberg, 1991, 1992). One reason is the multitude of ways used to define and/or derive profits, coupled with the fact that a majority of microenterprises lack records for accurate recall, while such information can be deemed sensitive to respondents.

In this paper, we focus on two key questions related to microenterprise performance broadly speaking. First, how are the activities of microenterprises distributed? Second, using an economic framework, what can we learn about the effects of sector activities and enterprise characteristics on the incidence of negative/positive financial performance as well as the intensity of profits? We use data drawn from the Ghana Living Standards Survey to develop an empirical approach to answering these questions. The structure of this paper is as follows. In Section two, we review the relevant literature on the financial performance of microenterprises in developing countries. We then discuss the data and the characteristics of microenterprises in Ghana. The method used to estimate firm performance is then described. Finally, we report and discuss the results of the analysis.

2. BACKGROUND LITERATURE

This paper builds upon previous empirical studies that document the relationship between enterprise start-up, performance, and growth based on the metrics of financial performance (Daniels, 1999, 2003; Daniels & Mead, 1998; Fafchamps & Gabre-Madhin, 2001), employment growth (Daniels & Mead, 1998; Livingstone, 1991; McPherson, 1996; Mead, 1994), sales growth (see Sleuwaegen & Goedhuys, 2002; Vijverberg, 1991), and productivity growth (e.g., Chapelle & Plane, 2005). The evidence presented to date suggests that, while growth and performance varies by firm characteristics and institutional environment, the bulk of microenterprises (and also small enterprises) does not grow into larger economic entities. The high aggregate growth often registered in employment in the microenterprise sector stems from high rates of "start up,"

many of which eventually fail, rather than the expansion of established enterprises (Daniels, 1998, 2003; Daniels & Mead, 1998; Livingstone, 1991; McPherson, 1996; Mead, 1994, 1999; Mead & Liedholm, 1998; Sleuwaegen & Goedhuys, 2002).

Empirical studies of microenterprise performance identify five key determinants of enterprise profitability, namely enterprise size, enterprise age, use of technology, sector characteristics, and entrepreneurial ability. It is important to recognize that profits can affect firm growth in opposite ways. Growth may be positive if profits are invested in a manner that expands the enterprise (Aryeetey, 2001; Atieno, 2001; Fafchamps & Gabre-Madhin, 2001), for example enhanced productive capacity. Alternatively, an enterprise may be financially viable but sacrifice growth to manage risk by diversifying into other activities (Livingstone, 1991; Mead, 1994; Mead & Liedholm, 1998). In the latter case the enterprise may not grow, or can even contract, for example in terms of number of employees or value of sales.

Entrepreneur characteristics and type of labor employed are important determinants of firm profits. Both the theoretical (e.g., Cressy, 2006; Salim, 2005) and empirical literature (e.g., Birks, Fluitman, Oudin, & Sinclair, 1994; Daniels & Mead, 1998; Goedhuys & Sleuwaegen, 2000; McPherson, 1996; Mitra, 2002; Sleuwaegen & Goedhuys, 2002; Vijverberg, 1991) suggest that the differences in the growth trajectories of microenterprises and resulting distributions of firm profits may be due to heterogeneity in the ability, management and/or ambition, and drive of entrepreneurs. For example, more educated/skilled entrepreneurs may have better start-up conditions, such as in the form of capital saved from earlier employment. In turn, more ready access to capital may facilitate the establishment of an enterprise with an efficient size and faster rates of capital accumulation (Fafchamps, 2000, 2003; Fafchamps & Gabre-Madhin, 2001). The gender of the entrepreneur may also affect firm profits. Male-owned microenterprises tend to perform better and, over time, grow faster relative to those that are female owned (Daniels & Mead, 1998; Fafchamps & Gabre-Madhin, 2001). Women are often disadvantaged by relatively less education and constrained by social norms which limit their mobility and access to other productive resources (Daniels & Mead, 1998; Fafchamps, 2000, 2003; Goedhuys & Sleuwaegen, 2000; Macharia, 1997; Massow,

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات