

## **GROWTH POTENTIALS OF MICROENTERPRISES IN URBAN AND RURAL AREAS OF NORTHWEST, NIGERIA**

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### ***Abstract***

*Microenterprises provide employment and generate income to many people in both urban and rural areas. They bring economic fortunes to people who are not working or desire to work in any formal organization. This study compares the growth potentials of microenterprises in urban and rural areas. A survey was conducted which cover selected micro-enterprise owners operating selected states in Northwest of Nigeria. 761 questionnaires were administered directly to the selected samples in both urban and rural areas. The study used regression and multivariate analysis of variance (MANOVA) to test all the hypotheses. There are many studies that examined growth potentials of firms, but there were little attempts to compare between microenterprises in rural and urban areas. There is little effort in the past to deliberately study if the microenterprises potentials to grow is dependent on their location. The findings of this study indicate that the enterprises have differences in their potentials to growth. The study adds value to the existing literature by identifying the microenterprises' growth potentials and clarifies differences between urban and rural micro-enterprises. For future researches is recommended to study the growth potentials of microenterprises according to sectors and locations. Studying growth potentials according to location would provide useful knowledge on the position and performance of microenterprises.*

**Keywords:** Growth Potentials, Microenterprises, Rural, Urban

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### **1.0 Introduction**

The microenterprises in all economies are playing crucial role in generating employment and income to many individuals. They are regarded as a means of livelihood to people who could not find a paid job or have desire to work for themselves. In Nigeria, many people in the last three decades lost their jobs due to closure of businesses. The formal sector continues to face challenges due to the dearth of infrastructural facility and other government support.

It has been of interest to policy makers to support new business creation

believing that job opportunities would be created and consequently poverty would be reduced. People have since lost faith in paid employment in most formal sector. Many people resorted to starting up a micro business to meet up with the daily needs of the families. It is expected that Micro and Small Enterprises (MSEs) would tremendously contribute to the economy in many ways. However, the actual concern of the government and policy makers is not about the number of businesses that would be created, but their long term impacts in addressing socio-economic challenges such as poverty and unemployment. If the informal sector's microenterprises will not continue to fail, it will be unlikely to achieve the goal of providing jobs, poverty alleviation and economic growth.

Firm's growth has been an interesting research area in strategic management. The conditions under which a study of the firm's growth helps in knowing much better the entrepreneurship process are debatable (Davidsson and Henrekson, 2002). It is believed that growth is a function of some entrepreneurial actions of the firms (Davidsson, 1989). Growing a business in most cases has to do with individual personality. The entrepreneurial orientation to a large extent may help in explaining how businesses grow. The environment at which business operates is another factor that determines the growth potentials of the firm. The availability of infrastructural facilities, access to finance, human capital and market are some examples of factors that accelerate the rate of growth of firms (Chittenden, Hall and Hutchinson, 1996).

This study contributes in exploring the differences in growth potential of urban and rural microenterprises. Therefore, it compares the growth potentials of microenterprises in urban and rural areas.

## **2.0 Literature Review**

The informal sector in most of the entrepreneurship literature is synonymous with microenterprises activities. In defining the informal sector, the economist sees it as unregulated activities involving cash exchange (Schoepfle, Perez-hopez and Griego, 1992). The sociologist considered the informal sector's activity as a source of community cohesion (Losby et al., 2002). The informal sector's microenterprises are recognized for their dynamic nature and potential in boosting economic growth and employment (Gerxhani, 2004). The major aspect that is being considered in distinguishing between informal and formal business activities is the legal status (Gerxhani, 2004; De Soto, 1989).

In Africa in particular, there has been an encouragement to stimulate private sector development. There are growing evidences to show that micro and small enterprises (MSEs) are thriving in many areas of the economy in terms of income and employment generation (Woodward, Rolfe, Lightelm,

Guimaraes, 2011). The studies of informal sector were mainly focused in developing countries on the belief that there are high rate of unemployment and poverty which are the motivational factors for setting up microenterprises (Losby et al., 2002). It is understood that informal economic activity is sometime consider to be temporary thing to tackle unemployment and poverty. Therefore, informal sector activity will naturally disappear when the economy develops (Marcelli, Pastor and Joassart, 1999).

It was believed that microenterprises are created primarily to remedy the problem of the poor in society (Ferman, Henry and Hoyman, 1987). But, there were some disagreement on the relationship between being poor and microenterprise activity. Informal activities require both physical and material resource that cannot be possessed by the poor (Portes and Sassen-Koob, 1987). Moreover, the informal economy is considered as a preparing ground for rural migrants to participate in productive economic activities in urban formal economy. Formal organizations usually offers employees wages and create conditions that allow the migrants to live at subsistence level. That is why some economists see the informal economy as a disguised unemployment (Sethuraman, 1981; Woodward, Roife, Lighten, and Guimares, 2011). According to De Soto (1989) the informal business organizations lack legal protection in the developing countries, hence small and microenterprises remain underground (informal). Despite the fact that this may constrain the firm growth and capital investment in the informal economic activity, that could not be a hindrance for development (Williams and Round, 2007). Most informal business activities have exhibited entrepreneurial dynamism and the potential to become formalized in due course (International Labour Organization, 2002). Thus, informal sector's micro entrepreneurs may appear to go beyond survivalist, provide standard of living above subsistence level and response to local opportunities (Rogerson, 1997; Woodward, Roife, Lighten and Guimareas, 2011).

In the same vein, it is revealed that EO and growth are positively related. The findings affirm the influence of EO on the growth of firms (Casillas and Moreno, 2010; Covin and Slevin, 1991; Lumpkin and Dess, 1996; Wiklund and Shepherd, 2005; Moreno and Casillas 2008). It is also explained that this kind of link is somewhat exacerbated through the crisis period Mustilli, D'Angelo, Campanella and Graziano (2017).

In individual firms survey in Iran, it was discovered that all EO dimensions have a direct positive relationship with small firm performance (Jalali, Thurasamy and Jaafar, 2017). However, industry networks interfere with the relationship between innovativeness, risk-taking and profitability growth. Similarly, in a survey of 318 SMEs in Mexico, it was discovered that some of the EO dimension have positively significant relationship on the growth of

SMEs (Maldonado-Guzman, Martínez-Serna and Pinzón-Castro, 2017). There was no evidence of significant influence of competitive aggressiveness and autonomy on growth for both sales and employment (Gupta and Sebastian, 2017).

It is argued that the lack equitable distribution of resources in many areas attribute to the why some firms progresses and some stagnate (Mueller, Van Stel, and Storey, 2008; Bosma, Acs, Autio, Coduras, and Levie, 2009). Microenterprises' growth is measured using various methods and techniques. Business growth is specifically measured in terms of increases in firm employment. Because most of the government policy makers believed that micro-entrepreneurs play a key role in reducing unemployment, therefore, the growth of any firm is measured by its ability to increase number of employees yearly (Birley, 1987; Westhead and Birley, 1995; Bah, Brada, and Yigit, 2011).

The resource-based view is one of the commonly used as theoretical framework in the literature of Management and entrepreneurship (Beard and Sumner, 2004; Runyan, Huddleston, and Swinney, 2006). It is virtually focus on resource allocation or efficient utilization to achieve competitive advantages (Wernerfelt, 1984; Barney, 1986, 1991; Peteraf, 1993). Resource based view is considered from a strategic angles as resource and capability which companies leverage on to achieve their strategic objectives. Those that have the potential of contributing to firm profits and minimizing losses (Miller and Shamsie, 1996).

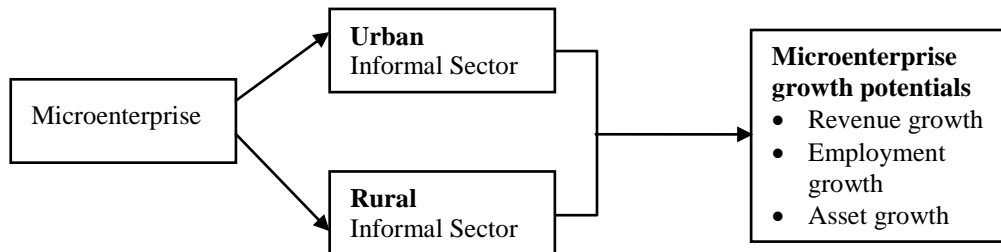
For a firm to gain competitive advantage, it needs to mobilize available and useful resources. Resources can be tangible resources which include availability of capital and intangible resources which consist of intellectual capital, company's reputation etc (Runyan et al., 2006). The capabilities are also regarded as firm's competences and any other invisible assets (Prahalad and Hamel, 1990). Sustainability of the firm's capabilities or core competences are the major factors for competitive advantage (Chandler and Hanks, 1994).

Many studies have tried to check the correctness of Gibran's Law i.e. the firm growth is a stochastic process and is randomly distributed across firms, and that it is independent of firm-specific characteristics such as firm size and firm age (Sutton, 1997; Caves, 1998). Some research findings provide considerable support for Gibrat's Law, that there was no systematical link between the firm size and business growth (Geroski, 1995; Sutton, 1997; Caves, 1998).

### **3.0 Methods**

The study used survey design to collect data directly from owners of microenterprises who manage their business in both rural and urban areas. 761 respondents were chosen as samples for data collection. This sample

is considered adequate due to the fact that other previous studies used fewer than 500 samples in their studies (Bekele and Muchie, 2009; Marcucci, 2001). The non- probability sampling technique (purposive) was utilized to get the appropriate respondents. This decision was informed by the fragmented nature of the micro enterprises that operate in almost every sector. MANOVA was used in comparing the urban and rural areas to ascertain the mean differences between the groups and whether the difference have occurred by chance. More so, the choice of the method was informed by the existence of more than one dependent variable in the model.



**Figure 1: Conceptual Model for growth potentials of microenterprises**

**3.1 Normality Test**

To check the normality and choose the most suitable statistical tool of analysis, preliminary tests were carryout as shown in table 1 below;

**Table 1: Kolmogorov-Smirnov<sup>a</sup> (KS) Test**

Variables	Location	Df	KS			
			Statistics	Sign.	Statistics	Sign.
EGP	Rural	305	0.19	0.04	0.79	0.00
	Urban	463	0.22	0.01	0.82	0.00
PGP	Rural	305	6.31	0.00	0.62	0.00
	Urban	463	0.17	-0.10	0.84	0.00
AGP	Rural	305	0.30	0.00	0.51	0.00
	Urban	463	0.43	0.00	0.34	0.00

Source: IBR Survey Data 2015

It is shown that all the dependent variables were normally distributed across locations. However, there are noticeable inconsistencies in the distribution pattern of the dependent variables.

**4.0 Results and Discussion of Findings**

The table 2, it is shows that the marginal means of growth potentials of microenterprise. The table shows that enterprises in the urban areas have higher mean scores for employees’ growth potentials. While, profit growth potentials of enterprises in the rural areas have higher mean scores. For asset growth potentials the result indicates that enterprises in the rural areas have higher mean scores.

**Table 2: Marginal means of enterprises growth potentials (at  $p < 0.05$  level)**

Dependent Variable	Location	Mean	S.E	95 confidence level	
				Lower Bound	Upper Bound
Employees growth potential	Rural	2.812	0.070	2.675	2.949
	Urban	2.949	0.069	2.813	3.085
Profit growth potential	Rural	4.334	0.098	4.142	4.526
	Urban	4.219	0.097	4.028	4.410
Assets growth potential	Rural	3.982	0.100	3.785	4.178
	Urban	3.763	0.100	3.667	4.058

In table 3, in comparison between rural and urban microenterprises, the Pillai's Trace value of 0.005,  $F = 1.242$ ,  $df = 3.000$ ,  $P = 0.293$  indicates non significant effect. Hence, there is significant multivariate effect on expected growth potentials across rural urban areas. The result indicates that the enterprises in both areas are not the same in their growth potential.

**Table 3: Multivariate effects of enterprises growth potentials (at  $p < .005$ )**

Locations	Pillai's Trace	F	Df	Error df	Sig.	Partial Eta square
Rural Urban Areas	0.005	1.242	3	756	0.293	0.005
Rural Urban*States	0.102	13.541*	6	1.514	0.000	0.051

There are some challenges that affect investment and therefore affect firms' performance. In some situation, micro and small business operators forced to operate in low-income market segments which at the same time affect their sales and profitability levels (Sengendo, Oyana, Nakileza and Musali, 2001). Inability to make high sales and profit may discourage firms' future investments and their growth. Most of the micro entrepreneurs are mainly rely on their internal resources to finance their investment because of the difficulty in accessing external finance (Ishengoma and Kappel, 2008; Reinikka and Svensson 2001; Arimah 2001; Mugume and Obwona 2001).

The challenges for growing microenterprise to some extent are associated with lack of finance, difficulty of attracting private capital from urban regions. The ability to raise capital is dependent on the entrepreneurs' level of proactiveness (Felsenstein and Schwartz, 1993; Farja, Gimmon and Greenberg, 2016).

## **5.0 Conclusion**

In line with the findings of this research, a conclusion has been reached on the existing significant difference between urban and rural microenterprises. They significantly vary according to their potentials to grow. The finding will help in no small measure the policy makers to come up suitable policies that create ecosystem on entrepreneurship to ensure the right growth culture for entrepreneurs. This is possible if government assist in creating business hubs, industrial parks and incubation centers in different and suitable locations in the northwest region. These places will serve as training grounds for both prospective and existing micro entrepreneurs. Assembling them in one place will spring board the way and manner knowledge and skills can be tapped and shared from one sector to another. It will ultimately change the entrepreneurial landscape which will eventually result in speedy growth of the microenterprises in the region.

There is need for firm to leverage on their resource to be able to succeed. Since most of the problems of microenterprises are associated with the environment in which they are operating, it is imperative to consider different types and location as factors to addressing the growth and performance of the entrepreneurs. Sometime, it is not very easy to suggest for equal allocation of infrastructural facilities, but these firms need to be supported different based on their needs and peculiarities. There is no alternative to ensuring the needed infrastructure, easy access to markets and finance to micro entrepreneurs.

It is not correct to treat unequal equal in the allocation of resource and business support facilities. There is need for future study to pay attention to individual sectors and locations to find out their individual differences and similarities.

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