

Identifying Factors Affecting the Success of Rural Self-Employment: A Study Based on Ambalantota Divisional Secretariat

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Introduction

Creating self-employment opportunities is a way of improving the socio economic status of a country's rural economy. There are enough natural resources to create self-employment businesses in rural area such as lands and raw materials. Therefore, especially rural people in Sri Lanka pay attention towards self-employment. Many rural inhabitants in Sri Lanka are self-employed (International Labour Organization, 2014). In general, successful self-employment contributes to increased production, income and eventually, the eradication of rural poverty. In Sri Lankan, self-employment is a way of creating a larger space in the job market to promote work opportunities for the unemployed people. Gindling and Newhouse (2014) (cited in. De Mel et al, 2010) find most workers in developing countries to be self-employed. During the period 1991 to 2013 the percentage of self-employed in total employment increased yearly. In 1991, percentage of self-employed in total employment was 37.60 and 46.30 in 2013 (International Labour Organization, 2014).

In this research, we have attempted to identify the education, training and experience affecting the success of rural self-employed individuals and trends of self-employment. Nature of self-employment activities can be categorized into two parts; viz. non-farm and farm self-employment (Trends in non-farm self-employment activity for rural women, 2004). The majority

of rural people in Sri Lanka engage in non-farm self-employment activities such as sweets production; producing and selling of spices; producing incense sticks, soap, wicks, handicraft productions, and bakery foods; services of beauty and hair cutting saloons; fashion designing, dress making and tailoring etc. Examples of farm self-employment are cultivation of mushrooms, flowers, vegetables and fruits, and animal production that are related to agriculture.

The literature provides information as to what factors affect the success of self-employed individuals. According to Robinson and Sexton (1994) self-employment success was measured by monthly income and education, training, experience, developed technology, age of self-employer and gender. The results indicate that education, training, and experience mainly affect the success of self-employment among rural inhabitants. Timothy (1995) finds that the self-employed are highly educated individuals often possessing financial resources. In 2009 Macieire analysed the impact of self-employment experience on income. The results indicate that experience and earnings from self-employment have a positive relationship and this quality of self-employment tends to be crucial for the success of a business.

Objective

The main objective of this study is to analyse the effects of training, experience and education of self-employed individuals on the success of having rural self-employment in Sri Lanka. Secondary objectives include, identifying the nature of self-employment activities and the major problems which are faced in the self-employment in rural inhabitants.

Methodology

A sample of 30 self-employed people living in the Ambalantota Divisional Secretariat in Hambantota was selected using a simple random sampling method. Questionnaire interviews were used to collect primary data. The study uses descriptive analysis and the Multiple Regression Model and uses the success of self-employment as the dependent variable (Y): self-employment success was measured by monthly income. The multiple linear regression model is specified as follows.

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \beta_5 X_{5i} + \beta_6 D_{1i} + \beta_7 D_{2i} + \beta_8 D_{3i} + u_i$$

X₁- Monthly savings from self-employment (Rs.)

X₂- Numbers of family workers engaged in the business

X₃- Experience (numbers of years)

X₄- Age of self-employed

X₅- Education (numbers of years).

There are three qualitative variables that have been included in the multiple regression model as dummy variables. D₁ is usage of machine, use = 1, otherwise 0, D₂ is vocational training of the self-employed, yes = 1, no = 0. D₃ is Gender of the self-employed, male = 1, otherwise = 0.

Results and Discussion

The results of the multiple regression model show that R² is 0.97. The estimation results show the overall regression model to be significant at the 5% significance level and that the overall goodness of fit is high. It indicates that the independent variables used explain about 97% of the success of self-employment. Moreover, the results indicate that there are a number of key significant factors such as savings, number of family workers engaged in the business, education, experience, training, usage of machine and gender affecting the success of self-employment; which are statistically significant at 5% and 10% confidence levels. Technology tends to be significant at the 10% confidence level. Age of self-employed is not significant at 5% and 10% confidence levels.

Table 1: Results of Multiple Regression Model

Independent variables	Coefficient
X ₁	1.094 (4.01)*
X ₂	2363.867(2.98)*
X ₃	428.727(2.28)*
X ₄	17.121(0.29)
X ₅	986.465(2.78)*
D ₁	4193.128(1.98)**
D ₂	6123.159(3.44)*
D ₃	-2756.731 (-2.16)*
-cons	4340.327 (1.88)**

Note: * 5% significance level **10% significance level

According to the analysis, 27% of the sample is engaged in farm self-employment activities and 73% is engaged in non-farm self-employment activities. The results also indicate demographic factors such as age, gender and family background, human capital and experience and economic factors affect the likelihood of being self-employed in the country's rural economy. As per the results, 53% of the sample is female self-employed and 47% is male. The highest proportion of self-employed is found between the ages of 24-30. This research has discovered three major problems in the self-employment of rural inhabitants, which are, difficulties of registering their business, difficulties of getting loans from government and private sector, and insufficient infrastructure in the rural area. According to the sample data, 53% of the sample is not registered business and 47% is registered business. Using the five point Likert-scale, difficulties of getting loan from government and private sector is 80% of the sample and 53% of the sample indicates that infrastructure is not sufficient in rural area.

Conclusion

The results indicate that education, training and experience tend to be crucial for the success of self-employment among rural inhabitants. Savings from self-employment, number of family workers engaged in the business, education, experience, training and being a female self-employed are the main factors affecting high income earnings and that tend to make rural self-employment successful. This research has also discussed three major problems in rural self-employment; viz. difficulties in registering their business, difficulties of getting loans from government and private sector, and insufficient infrastructure in rural area. Therefore, the government and private sector should take necessary actions to supply sufficient infrastructure facilities like transport, communication, credit facilities and marketing facilities. Marketing facilities help to find suitable markets for their produce without any losses. Also the rural self-employed should be encouraged to produce more using their resources and should take action to distribute their production around the country. Further studies are needed to assess psychological and social factors that affect the success of rural self-employment.

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