

The Determinants of Business Survival: Empirical Evidence from Youth-owned Micro and Small Enterprises in Ethiopia

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Abstract

Micro and small enterprises are expected to play a crucial role in the development process of a country through employment creation, increasing income and poverty alleviation. This study investigates the effects of person, firm, industry and business strategy characteristics on MSEs' risk of failure. We employ a retrospective cross sectional survey data from 941 enterprises which are founded in the year 2008 and later. The non-parametric estimation results reveal that there is an increasing risk of failure during the start up phase of the enterprises. Moreover, we confirm that there exist significant differences in survival rate and drop-out risk between micro and small enterprises, and necessity and opportunity entrepreneurs. The first Cox proportional hazard estimates show that gender, age, previous labor market experience, motivation, entrepreneurial education and training, initial size, legal form, size of start-up capital, industry type and formality are important predictors of MSEs survival in Ethiopia. Moreover, we find that gender, entrepreneurial training, size of start-up capital are the major factors accounted for the better success of small enterprises compared to micro enterprises. The second model proves that marketing management and financial management strategies play a significant role on increasing the survival of MSEs in Ethiopia. Moreover, human capital development and access to internet are also important elements to increase the MSEs' probability of survival. Price, location, innovation strategies, competition and external market linkage are the major factors accounted for the better success of small enterprises compared to micro enterprises. Further, pricing strategy, place strategy, source of financing strategies and inventory management are important explanatory factors why the opportunity entrepreneurs survive more compared to the necessity entrepreneurs. The findings from this study have important implications for prospective entrepreneurs, business owners, support providers, and policy makers on how to improve self-employment and create conducive business climate.

Key words: Ethiopia, Micro and small scale enterprises survival, non-parametric hazard model, Cox proportional hazard model