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The role of education and learning by experience in the performance of Microenterprises

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Abstract

This paper evaluates the role of human capital in the productivity performance of Mexican microenterprises by estimating productivity functions using standard econometric techniques. Two sources of human capital are analyzed: formal education acquired at educational institutions and business experience of the entrepreneurs. The data is originated from a sample of microenterprises operating in challenged neighborhoods of the Mexican province of Baja California. The estimated productive structure of the enterprises in the sample and the effects of human capital, suggest that this source of capital plays a role not only in terms of determining the productivity level across enterprises but also in enhancing long run productivity, bringing some implications about the sources of productivity available in these enterprises and the orientation of the entrepreneurship policies for developing countries.

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1. Introduction

Microenterprises (MEs) accounts 5.35 million, representing 95% of the enterprises in Mexico. Literature suggests that these enterprises face institutional, market, productive, financial and human capital constraints. This paper relates to the later issue: the role played by formal education acquired at educational institutions and business experience of entrepreneurs in the productivity performance of MEs. This is an application that had escaped economic literature despite the proliferation of such enterprises in developing countries. The analysis was performed in a sample of Mexican MEs operating in challenged neighborhoods of the Mexican province of Baja California. Findings of the paper reveal the sources of productivity available in these enterprises and about the orientation of the entrepreneurship policies to empower disadvantaged individuals in developing countries with improved learning for their livelihood.

2. Literature review

The pioneering contributions of Becker (1961) and Shultz (1962) defined human capital as all resources invested on people, emphasizing aspects such as job training, schooling, experience, and other knowledge whose returns could be captured by employees in higher wages and by enterprises in higher productivity. Studies on this ground have linked human capital to some entrepreneur variables such as allocative efficiency (Fane, 1975; Huffman 1977; and Stefanou & Saxena; 1988), business success or duration (Bates, 1987 & Bates, 1990), enterprise growth (Liedholm, 2002) and profitability performance (Honig, 1998). With regard productivity, Barron et al. (1987) and Bishop (1994) found that training provided by employers increased the productivity as perceived by the workers; Bartel (1989, 1992) found that training increased actual and future productivity, and Mungaray and Ramirez (2007), suggest that formal education and experience of the owner in management boosted productivity. A similar result relating to education was provided by Black & Lynch (1996) who suggest that average schooling level has a positive and significant effect over productivity. In Mexico, studies linking human capital and performance variables at firm level are not numerous particularly those relating to self-employees and MEs. One is Hernandez-Trillo et al. (2005) who estimated the contribution of schooling and business experience on technical inefficiency in MEs, finding both negative and statistically significant; another is Mungaray et al. (2008) who found positive effects on MEs cost curves derived from extensions programs. One last work is McPherson (2012), who provides evidence that the accumulation of human capital of Mexican MEs proprietors is positively associated with the growth performance of their businesses.

3. The Data, Empirical Approach and Results

3.1 Remarks about the microenterprises of the sample

Data was obtained from a surveying 5,524 MEs owners in the state of Baja California Mexico during the period 2009-2010, targeting either self-employees or MEs with up to 10 employees. The sample procedure restricted to marginalized neighbourhoods, thus inferences are applicable to MEs in developing countries where MEs proliferate. The MEs by enterprise type is as follows: street vendors (26%), streets workshops located at fixed sites on sidewalks (20%), home workshops (23%) and independent workshops in formal establishments (23%), the rest is unspecified. As for the industry, the MEs operate mainly in trade (48%) such as selling groceries, food and beverage, sale of new or second hand clothing and personal apparel; service activities, such as preparation and sale of food products or personal services (36%); manufacturing such as food processing, and making of textiles, leather and apparel products (11%), and the rest 5% is unspecified. The MEs produce on average about 8.2 thousands pesos per month (about 648 US dollars, using the 12.62 parity peso-dollar which prevail before recent markets volatility) and 8.9 thousands pesos of physical assets (about 707 US dollars), but data exhibit a great dispersion. The number of employees working in these enterprises averages 1.37 with a standard deviation of 1.07, and a median of 1, which suggests that the typical enterprise in the sample is a self-employee. Description of human capital characteristics of the MEs in the sample is provided in table 1, which contain schooling, experience and age of the entrepreneurs.

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