STUDY SUMMARY

Are SMEs Leaving Returns to Scale on the Table?

A common sight in developing economies is a series of identical shops, selling the same product at similar prices and all located within extremely close geographical proximity. However, while the observation that shops appear redundant seems to imply that SMEs could increase profits by combining or diversifying, there is no empirical evidence that can test the hypothesis that SME behavior is irrational. This project looks at whether such behavior among SMEs is efficient by collecting data that will allow for a direct answer to the question: assuming no agency costs and a well functioning consumer market, could SMEs combine and earn higher profits? This project focuses on ten used tire sellers in downtown Accra that are located in a row and all sell only used tires. Data collection on these seemingly redundant firms includes digitizing the books of all ten small businesses and recording information about consumer purchasing behavior (i.e. transaction times, quantities and prices), the quality of goods being sold, the incidence of stock outs, management of labor as well as inventory and supply management practices, as well as conducting surveys with shop owners, shop workers and consumers. The primary outcome of the study will be the ability to conclude one of two things: a) the tire shops continue to operate separately because there is no benefit to combining, or b) the tire shops could decrease costs and increase profits but they do not do so.

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COUNTRY
Ghana

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PROGRAM AREA
Small and Medium Enterprises

TOPIC

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