The survival and growth of small-medium size enterprises in ghana

MBA PROJECT PROPOSALTHE SURVIVAL AND GROWTH OF SMALL AND MEDIUM SIZE ENTERPRISES IN GHANABy: PETER ANTWIProject Proposal Submitted to Leicester University in partial fulfilment of the requirements for the Degree of Masters for Business AdministrationABSTRACTSmall and medium enterprises SME(s) form significant sectors in most world economies and therefore their development is regarded as an important issue for most governments. Since Ghana??™s independence in 1957, the government and business sector development in Ghana have shown great interest in the possible contributions of SME(s) in the social and economic development of the country. However, as in most industrializing countries, the SME sector in Ghana has traditionally operated under significant constraints such as financial constraints, non-financial constraints and constraints relating to the enabling environment. The SME business sector development in Ghana has been identified as one of the key elements to Ghana??™s engine of growth (vision 2020) and has become an issue of priority even though many SME(s) are struggling with establishment and doing business.

This acted as a motivating factor for the researcher??™s interest in investigating the case where by despite improvements in Ghana??™s macro economic performance and large injection of funds and other resources into the SME sector, many SME(s) have either collapsed or are barely surviving. This study has therefore sought to identify the constraints and problems to the development of SME(s). Based on general knowledge attained from literature review and findings from the interviews and analysis of the survey results, substantial measures would be developed to promote the funding and growth of SME(s).

1. 0 INTRODUCTION: Despite the many constraints and problems of SME(s), some have been able to beat the odds and turn their companies from start-ups into one of the top performers in their various sectors. The purpose of this project is to analyse why some SME(s) collapse and contribute to reducing the barriers to survival, growth and access to finance that SME(s) currently face.

1. 1 Research questionsGiven that the SME sector is a key element to Ghana??™s engine of growth, why do some SME(s) survive and grow while others simply collapse The research questions will focus on variables that grant or constraint firm??™s growth and financial issues within the micro, small and medium sized enterprise development, hence the research questions:(a) Analyse variables that affect firm growth.(b) To assess public perception about SME(s) and their products.

(c) Identify and discuss SME(s) sources of finance and financial needs.(d) Analyse the constraints and problems of SME(s).(e) Develop sustainable measures to support SME(s) development. 1. 2 Personal interestThis research is aimed at being a tool kit for developing the researcher??™s skills as an aspiring private sector developer and the knowledge attained will be valuable to providing a basis for further academic research. 2. 0 RELATIONS TO PREVOIUS RESEARCHBecause private sector development is an important channel through which the Millennium Development Goals (MDGs) and other development targets will be reached, more needs to be done to consolidate improvements in the micro-economic environment to achieve sustainable growth rate.

2. 1 Defining the research topicThe question of definition is central to an empirical study. There is no universally accepted definition of SME among different organisations and different countries. Firms differ in their levels of capitalisation, sales and employment. Definitions in GhanaThe most important criterion used in defining the size of enterprise is employment (Boon, 1989).

An alternate criterion used in defining the small and medium enterprise is the value of fixed assets in the organisation. SME(s) in Ghana can be categorised into urban and rural enterprises. Generally, the following target groups are classified as: Micro enterprises: Those employing up to 5 employees with fixed not exceeding the value of $10, 000Small enterprises: Employees between 6 and 29 with fixed assets of $100, 000Medium enterprises: Employ between 30 and 99 employees with fixed assets of up to $ 1 million. 2.

2 Evolution and impact of SME(s) in Ghana??™s Economic DevelopmentRising inflation, deterioration of balance of payment and falling real wages drove many modern sector workers into secondary self employment from 1970 to 1984. According to Steel and Webster (1991) as the economy declined, large scale manufacturing employment stagnated while small-scale employment grew by 2. 9% per annum and accounted for nearly ten times as many jobs as the large ??" scale sector. 2. 3 Theoretical and conceptual framework of SME Growth and FundingGrowth is the result of exploring opportunities Barney (1991). Gilbrat??™s (1931) law of proportionate effect which proposes that business growth rate are independent of firm size raise the question of the relationship between firm

size and growth. Penrose (1959) argued that there is no limit to the growth of the firms; it is the rate of growth that is limited in the short run but there is no limit to the size of the firm. The most prevalent explanatory device employ by most researchers for explaining growth in SME(s) is Hanks et al (1993) stage model of growth where growth is viewed as series of phases or stages.

Alternate conceptual framework includes strategic management model of growth, stochastic model of firm growth and static equilibrium theories. Providing finance to SME(s) in Africa is a complicated affair. Nevertheless, few innovative financing business models such as Acumen fund model, Grofin Business and Root Capital Business models have emerged. Alternate models of funding SME(s) from other countries include the Indian model, Bangladesh-the Gramen model and the Brazilian model. The concept of ?????? SME??™??™ in this paper refers only to the small and medium manufacturing enterprises. 2. 4 The role and characteristics of SME(s)SME(s) have a dynamic role of being adaptive and flexible.

They are potential source of employment and income in many emerging economies. SME(s) are not quoted on the stock exchange ??" they are ?????? unquoted??™??™. Ownership of the business is typically restricted to a few individuals. Often they are the means by which individuals effectively achieved self employment according to Kayanula and Quartey (2000). They are labour intensive and capital productivity is higher in SME(s) than is the case with large scale enterprise (Child, 1971, Steel, 1977). 2.

5 Firm??™s growth determinants and SME financeThe most recognised and empirically tested theory of firm growth is probably Gilbrat??™s (1931) law of proportionate effect. A broader analysis of other factors affecting firm??™s growth empirically or theoretically has been uncommon. However, it is important to understand the variables that grant firm??™s growth. This analysis will help fill the gap described above in emerging economies. Meanwhile, SME(s) enterprises are largely reached by Non Governmental Organisations (NGOs) and family based financing. The main problem faced by SME(s) when trying to obtainfunding is that of uncertainty.

A particular problem of uncertainty relates to businesses with a low asset base. 2. 6 Policies for promoting and factors restraining SME growthTo enable the sector perform its role effectively, there needs to be a coherent and comprehensive policy framework from the government and private sector developers to assist SME(s) development, provide equipment leasing, an alternative and flexible source of long term financing of plants and equipments for enterprises that can not afford their own.

Nevertheless, SME(s) face a variety of constraints owing to the difficult of absorbing fixed cost and absence of economies of scale (Liedholm & Mead, 1987; Steel & Webster, 1990). Below is a set of constraints identified: input, finance, labour market, equipment and technology, domestic, managerial and among others. 3. 0 PROPOSED METHODSIn order to trace the survival and growth of SME(s) the research will be based on a combination of both primary and secondary data and a wide range of quantitative and qualitative analysis. 3. 1 Interviews and document searchIt will involve carrying out interviews, a document search and a far reaching literature review. This

multi-method approach of carrying out research is known to as triangulation (Bell, 1999), was chosen by the researcher because it will ensure some level of accuracy in the research findings.

The research method chosen for gathering primary data is interviewing. This is a suitable method because the nature of the problem being investigated necessitates interviewing senior managers in charge of SME(s). Interviews offer adaptability and the interview guide will have a semi-structured format to include closed questions and open ??" ended questions.

This will allow some degree of standardisation whilst maintaining flexibility. The closed questions will be designed to uncover facts while the open ended questions will help ensure that the salient areas are covered by exploring ideas that may not have been considered. This will allow the researcher to uncover facts as well as opinions (May, 2001). 3. 2 Data collection processSelf-administered questionnaires and personal interviews were basically used.

Key personnel of targeted existing SME support institutions were interviewed through simple random sampling. Questions were asked on a wide range of issues and various challenges they faced at work. A sample size of 250 respondents was chosen through random sampling of interviewing every fourth person that appeared. The questionnaires were administered in the following areas: Accra, Kumasi and Tema. The questions were in English, but were translated to ??? Twi??™ if the respondent so wish. 3. 3 Data AnalysisCompleted questionnaires will be coded and inputted into a statistical package ?????? SPSS??™??™ for simpler statistical analysis

displayed in flow charts. The results of this statistical analysis will help capture people??™s opinion on locally manufactured goods and shed light on the demand of SME products.

Another purpose this survey served was to determine whether SME(s) have any chance of survival. A premise to this study was that baring all other problems SME(s) had the chance of survival if people had favourable perception of their good. That is if people were willing to buy their product(s) they could survive.

On the other hand, no matter what they did, the chances of surviving were indeed slim if people did not want to patronize these products. I am also hopeful that the results of the statistical analysis will help capture variables that decisively affect firm??™s growth and describe the problems and experiences that have been encountered by SME(s) with regards to financial access. 4. 0 REFLECTIONSAs in the case in any research, there are challenges/hurdles that will be faced in process of any research. Some of the potential challenges to successfully completing this research will include; The vastness of the SME sector ??" This study generalized for example the problems of the SME sector.

Where in actual fact, the different sectors, Agro-based sector, publishing sector, manufacturing and many more have their unique problems. The time factor ??" Knowing the people to be interviewed, their sense of urgency and priorities will not always coincide with mine. However, I plan to conduct the research with them as part of their work schedule to overcome any issues around time. Having said that, most board of directors and management

staff of SME(s) are fully supportive of this project and the way it is being planned. One of the main challenges with this project will be trying to obtain clean and accurate data on SME sector in order to perform meaningful statistical and quantitative analysis upon. I am fortunate that Levy, B. (1993) has already produced an empirical assessment on ?????? Obstacles to Developing Indigenous Small and Medium Enterprises. There has been no comprehensive national SME survey information and the success rate of SME sector in Ghana is sketchy and weak.

It is all based on facts that have not been empirically proven. The other issue will be my role as a researcher and the potential bias during the research process. As a researcher I do have pre-conceived ideas on why some SME(s) do survive and thrive and why others do collapsed and this may cloud my judgment, but will ensure to approach the project with an open mind. ??? It is difficult to see how this (i. e. bias) can be avoided completely, but given awareness of the problem plus constant self-control can help??? Gavron (1966). Access of information from any registered limited company in the world, will not always be easy to obtain because of the confidentiality that is expected from data protection act and some financial services providers. However, most importantly, the private sector developers will not be willing to release sensitive data, in case its gets in the hands of competition.

I anticipate speaking to Private Enterprise Foundation (PEF), National Board for Small Scale Industries (NBSSI), Ghana Statistical Services (GSS) and the Ministry of Trade and Industry (MOTI) in order to try and pull together the various data needed to provide more substantial analysis on the future path of SME(s). 5. 0 CONCLUTIONSAs an integral part of Ghana??™s engine of

growth, the SME sector has been growing at a rapid pace to reach a competitive level, and has become a serious competitor to foreign goods. This is mainly because small firms take decisions on new products and processes more quickly; owner manager and entrepreneurs provide a high degree of commitment to success. Due to different motivational factors, SME(s) do place different priorities and investments in Ghana??™s business sector development. There has been much discussion on why some SME do collapse as well as a discussion to promote private sector development.

This project aims to try and understand what factors have had influence on firm??™s survival and growth in the past and therefore help to forecast the present. It discusses people??™s perception about locally manufactured goods and tries to establish what the government, SME sector and business support institutions can possibly do to help locally manufactured goods to have a competitive edge over foreign goods. It identifies the financial needs of SME(s) and makes recommendations to enhance SME funding as well as key strategies to raise productivity levels across sectors and size groups. 6. 0 TIME SCHEDULEThe Gant chart below shows the key activities and time associated with this project| No.

| Task | September | October | November | December | January | 1 | Literature review | | | | | | | | | | | | | | | | | | | | 2 | Data collection | | | | | | | | | | | | | | | | | | | | | | | 3 | Analysis of results | | | | | | | | | | | | | | | | | | | | | | | | | 4 | Summarising of findings and write ups | | | | | | | | | | | | | | | | | | | | | | | | 5 | Review of study and further actions | | | | | | | | | | | | | | | | | | | | | | | 6 | Conclusion | | | | | | | | | | | | | | | | | | | | | | | | | 7 | Proof of reading (Ongoing) | | | | | | | | | | | | | | | | | | | | | | | | 8 | Final editing, printing and binding | | | | | | | |

| | | | | | | | | | | | | | | 9 | Project submission | | | | | | | | | | | | | | | | | | | | | | | | | |

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San Francisco: International Centre for Economic Growth. Steel W. F (1977) Small Scale Employment and Production in Developing Countries: Evidence from Ghana, Praeger, New York, USA. Storey D. (1994) Understanding the Small Scale Sector, Routledge. APPENDIX AQUESTIONNAIRE ON SME(s) AND THEIR PRODUCTS SECTION ONE: GENDER, EDUCATION AND PERCEPTION OF RESPONDENTS (1) GENDER: ??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦ Male [ ] Female [ ] 2) EDUCATIONAL BACKGROUND: PRIMARY LEVEL [ ] SECONDARY LEVEL [ ] TERTIARY LEVEL [ ] (3) IN TERMS OF QUALITY, WHAT DO YOU THINK ABOUT LOCALLY MANUFACTURED GOODS HIGH QUALITY [ ] GOOD QUALITY [ ] LOW QUALITY [ ] POOR QUALITY [ ] (4) CAN YOU IDENTIFY CERTAIN LOCALLY MANUFACTUERD GOODS THAT YOU PATRONIZE ??¦??¦?? ¦?? ¦?? ¦?? ¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦ 5) WHY DO YOU PATRONIZE THESE GOODS ??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦?? ¦?? ¦?? ¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦.

… 6) ARE THERE OTHER GOODS/PRODUCTS THAT YOU PREFER IT TO BE FOREIGN IF YES, IDENTIFY THEM AND GIVE YOUR REASONS. ??¦??¦??¦??¦??¦?? ¦?? ¦??

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… (7) IN YOUR VIEW, WHAT ACTUALLY CAUSES DECLINE IN SMALL-MEDIUM MANUFACTURING ENTERPRISES IN GHANA ??¡??(9) WHAT CAN COMPANIES DO TO PROMOTE THE PATRONAGE OF LOCALLY MANUFACTURED GOODS??¡ SECTION TWO: SME FINANCE (10) CAN YOU INDICATE OR IDENTIFY ANY SOURCE(S) OF FINANCE FOR SME(s)??¡??(12) WHAT ARE THE FINANCIAL NEEDS OF SME(s)??¡??(13) WHY DO SME(s) FIND FINANCING A PROBLEM??¡??(14) WHAT ARE THE EFFECTS OF FINANCIAL CRISIS ON SME(s)??¡??

¦??(15) WHAT WOULD YOU SUGGEST TO INCREASE SME(s) ACCESS TO FINANCE??¦?? ¦?? ¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦. SECTION THREE: SME SURVIVAL AND GROWTH(16) DO FIRM GROWTH DIFFER??™S ACROSS SECTORS YES [ ] NO [ ](17) CAN YOU IDENTIFY ANY VARIABLE(S) THAT AFFECT FIRM GROWTH??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦?? ¦?? ¦??(18) IN TERMS OF GROWTH IN NUMBER OF ENTERPRISES, WHICH OF THESE SECTORS IS STABLEFOOD [ ] WOOD [ ] CHEMICAL [ ]TEXTILE [ ] METAL WORK [ ](19) WHICH OF THESE SIZE CATEGORIES IS EXPERIENCING AN INCREASE IN JOB CREATIONMICRO ENTERPRISES [ ] SMALL ENTERPRISES [ ] MEDIUM ENTERPRISES [ ] LARGE ENTERPRISES [ ](20) IN YOUR VIEW, WHICH OF THESE SME SECTOR??™S IS PERFORMING CREDITABLLY FOOD [ ] WOOD [ ] CHEMICAL [ ]TEXTILE [ ] METAL WORK [ ](21) ARE YOU AWARE OF ANY POLICIES THAT THE GOVERNMENT HAS MADE TO PROMOTE THE PATRONAGE OF LOCALLY MANUFACTURED GOODS YES [ ] NO [ ]IF YES, PLEASE SPECIFY ??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦.(22) WHAT MEASURES WOULD YOU SUGGEST OUTSIDE THOSE IN QUESTION 9 & 15 TO SUPPORT THE DEVELOPMENT AND GROWTH OF SMES IN GHANAAPPENDIX BSET OF INTERVIEW QUESTIONS FOR SENOIR MANAGER??™S WITHIN SMALL-MEDIUM ENTERPRISES SME(s).(1) COULD YOU GIVE AN OVERVIEW OF YOUR RELATIONSHIP TO THE COMPANY ??" YEAR INVOLVED AND PRIMARY RESPONSIBILITIES HELD??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??

¦??¦(2) COULD YOU BRIEFLY ELABORATE ON YOUR GROWTH STRATEGIES??¦??¦??¦??¦??¦??¦??¦?? ¦??¦(3) WHAT IS YOUR TARGET MARKET ??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦?? ¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦.(4) HOW COMPRTITIVE IS THE SMALL-MEDIUM MANUFACTURING SECTOR (a) Very competitive [ ] (b) Competitive [ ] (c) Less Competitive [ ](5) WHAT FACTORS ARE INFLUENCING SME GROWTH IN GHANA??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦?? ¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦..(6) IS CREDIT A BINDING CONSTRAINT TO YOUR FIRM HOW USEFUL WOULD A CREDIT AT 25% INTEREST BE FOR A NEW INVESTMENT AND WORKING CAPITAL (a) Very useful (b) Moderately useful (c) Not useful(7) HOW WOULD YOU DESCRIBE YOUR FIRM??™S ACCESS TO BANK LOANS AND OTHER SOURCES OF FINANCE (a) Very good [ ] (b) Good [ ] (c) Average [ ] (d) Poor [ ](8) WHAT ARE SOME OF THE PROBLEMS YOU ARE FACING AS A SME??¦??¦??¦??¦??¦??¦??¦??¦??¦?? ¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦.(9) HOW HAS THE COMPANY COPED WITH THESE PROBLEMS??¦??¦??¦??¦??¦??¦??¦??¦?? ¦??¦(10) COMPARING YOUR COMPANY TO OTHER SMALL-MEDIUM SCALE COMPANIES, WHAT HAS THIS COMPANY DONE DIFFERENTLY FROM OTHER??™S TO ENHANCE SUSTAINABLE GROWTH??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦??¦?? ¦?? ¦??¦