

Analysing reviews and development of smes in ghana



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The dynamic role of Small and Medium scale Enterprises (SMEs) in developing countries towards employment generation and income creation has OVER TIME been highly emphasised by several authors (Kayanula and Quartey 2000, OECD 2004). While it is generally accepted that SMEs are important contributors to the domestic economy, not many governments have framed policies to enhance their contribution or increase their competitiveness (UNCTAD 2005).

Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. As indicated by OECD 2002, SMEs fast-changing technologies and globalising economies are putting increased pressures on firms to reorganise their structures to enhance adaptability and flexibility. Upgrading the skills of all types of employees is hence central to firm performance in SMEs which must be able to adapt quickly to evolving markets and changing circumstances, but which often have limited resources. Indeed there is preliminary evidence that competence development activities can reduce the failure rates of small firms, which are far more likely to fail than larger firms, particularly in the early years (OECD 2002).

1. 2 SMEs in Ghana: Definition and Role towards Economic Development

As per statistics from the United Nations Economic Commission for Africa 2010, Ghana's GDP grew at an annual rate of 5.4 per cent between 2001 and 2007. Such impressive performance was partly contributed to the robust growth of the SME sector in Ghana. Available data from the Registrar General in Ghana indicates that 90% of companies registered are micro,

small and medium enterprises (Mensah 2004). This target group has been identified as the catalyst for the economic growth of the country as they are a major source of income and employment.

Analogous to the situation in other countries though, Kayanula and Quartey 2000 state that there is no single, uniformly acceptable, definition of a small firm in Ghana as these firms differ in their levels of capitalisation, sales and employment. Hence, definitions which employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result. Kayanula and Quartey in their research however identified a number of common definitions used when referring to SMEs in Ghana that could be used for purposes of this essay. These definitions are summarised below:

The Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium and Large-Sized Enterprises. An alternative criteria used in defining small and medium enterprises is the value of fixed assets in the organisation. However, the National Board of Small Scale Industries (NBSSI) in Ghana applies both the fixed asset and number of employees^{1/2} criteria. It defines a Small Scale Enterprise as one with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedis. From these definitions however, it would be prudent for purposes of this essay to note that the process of valuing fixed assets in itself poses a problem as continuous depreciation in the exchange rate often makes such definitions out-dated.

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It is further noted that SMEs in Ghana can be categorised into urban and rural enterprises. The former can be sub-divided into 'organised' and 'unorganised' enterprises. The organised ones tend to have paid employees with a registered office whereas the unorganised category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home and employ little or in some cases no salaried workers. They rely mostly on family members or apprentices. Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops. The major activities within this sector include:- soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smithing, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical based products and mechanics (UNECA 2010, Kayanula and Quartey 2000).

Among their many roles, SMEs in Ghana have been crucial in mobilising funds which otherwise would have been idle (Kayanula and Quartey 2000). The authors further point out that SMEs have been recognised as a seed-bed for indigenous entrepreneurship, are labour intensive, employing more labour per unit of capital than large enterprises and promote indigenous technological know-how. Furthermore, due to their regional dispersion and their labour intensity, argument goes that small scale production units can promote a more equitable distribution of income than large firms in Ghana. They also improve the efficiency of domestic markets and make productive use of scarce resources and thus facilitating long term economic growth.

1. 3 Challenges facing SME Growth and Competitiveness in Ghana

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Despite the wide-ranging economic reforms instituted in the country to promote SME development, SMEs in Ghana still face a variety of constraints (UNECA 2010, Kayanula and Quartey 2000). Mensah 2004 drew up a basic profile on such SME challenges: SMEs are dominated by the owner/manager who takes all major company decisions. The entrepreneur possesses limited formal education, access to and use of new technologies, market information, and access to credit from the banking sector is severely limited. Furthermore, management skills are weak, thus inhibiting the development of a strategic plan for sustainable growth.

Kayanula and Quartey in addition note that SME competitiveness in Ghana is mainly constrained by the following factors:

1. Limited access to finance remains a dominant constraint to small scale enterprises in Ghana. Credit constraints pertaining to working capital and raw materials are often cited by small firm and these partly stem from the fact that SMEs have limited access to capital markets, both locally and internationally.
2. SMEs have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and SME competitiveness. This fact is ascertained by UNCTAD 2005 which notes that most SMEs also lack the technical know-how and financial resources needed to acquire state of the art technologies and equipment required to improve productivity and to become internationally competitive.
3. Regulatory Constraints: Although wide ranging structural reforms have improved, prospects for enterprise development remain to be addressed at <https://assignbuster.com/analysing-reviews-and-development-of-smes-in-ghana/>

the firm-level. High start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMEs. The high cost of settling legal claims and excessive delays in court proceedings adversely affect SME operations. In the case of Ghana, the cumbersome procedure for registering and commencing business were key issues often cited.

4. Of actual importance to this essay however, is the insufficient supply of skilled workers among SMEs in Ghana that limits specialisation opportunities, raises costs, and reduce flexibility in managing company operations. This is coupled with the lack of entrepreneurial and business management Skills: Lack of managerial know-how places significant constraints on SME development.

Mensah 2004 in conclusion notes that SMEs in Ghana have not been able to take full advantage of Government-sponsored business support services. This paper therefore seeks to identify the possible implications for strengthening SME competitiveness through competence development that could be attained through the acquisition of knowledge, skills and new abilities.

Chapter Two: Literature Review

2. 1 Competence: Definition of the Concept

Studying a concept such as competence is very complex as the concept is used differently by many people (Awuah 2007). According to the author, the term competence can be defined as the ability of a firm to develop and

manage relations with key suppliers, customers and other organizations. The term is further defined by the UN as the possession of a set of skills, related knowledge and attributes that allow an individual to perform a task or an activity within a specific function or job (UN 2007, UNIDO 2002). A graphical display of how the UN explains competence is displayed in figure 1 that follows:

A more practical definition for the term competence is provided by the European Commission which defines competence as the combination of human knowledge, skills and aptitudes serving productive purposes in firms and contributing to their competitiveness (EC 2003). From the EC definition, we notice that the possession of necessary skills and abilities should be able to provide a firm with a certain competitive advantage over its competitors. In this paper therefore, the term competence will be used to mean the ability to demonstrate knowledge, skills, experience, and attributes necessary for a firm to achieve a sustainable competitive advantage. In general, competence in a job means being competent at all aspects of each function or competency required to be performed within the role. The term competency is graphically explained in figure 1.

Several authors such as EC 2003 and Moe 1995 distinguish between competencies at individual and organisational level. Individual competencies imply a person's internal cognitive abilities and skills. Such competencies may be gained through education and experience in the work place (Nordhaug 1992). On the other hand institutional competence is more than the sum of competences of the individuals. It consists of institutional

qualities such as the ability to mobilize teamwork and synergistic effects of
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interactions between individuals (Moe 1995). EC 2003 however cautions that a high level of individual competence does not automatically result in a high level of organisational competence and therefore an optimal degree of organisational competence requires a transfer mechanism that facilitates interplay between an individual and the organisation's frameworks and routines.

Figure 1: Definition of Competency

Source: UNIDO 2002, Page 9

In this regard, Nordhaug 1992 adds that much expertise based on practical experience is accumulated by individuals working within any company. To transform the experiences of the individuals into institutional knowledge is a great challenge to which there hardly exists any universal solution. The goal therefore must be to embed this experience in the organization in such a way that it is at any time available to those who need it, even after the individual who made it has left the company.

In contrast to many contemporary authors, UNIDO 2002 distinguishes competencies as being managerial, generic and technical. Managerial competencies are considered for staff with managerial or supervisory responsibility in any firm, including directors and senior posts. It is further noted that some managerial competencies could be more relevant for specific occupations however they are applied horizontally across a firm for example analysis and decision making and team leadership.

Generic competencies are considered essential for all staff regardless of their function or level for example communication, programme execution and linguistics. Technical or functional competencies on the other hand are specific competencies that are considered essential to perform a job within a defined area of work for example environmental management, finance management and human resource management among others. In conclusion, UNIDO 2002 notes that any function within a firm requires a set of essential managerial/generic and technical/functional competencies to be performed effectively.

2. 1 Competence Development in SMEs

2. 2. 1 Definition of Competence Development

Competence development is defined by Koch, Gill and Ellström 2006 as an overall designation for the various activities that can be used to affect the supply of employee competence and skills on the internal labour market. In this definition, it should be pointed out that the term competence development is sometimes also used to denote the individual learning processes through which competence is developed. A simpler definition is provided by the EC, which defines competence development as the measures taken by any enterprise to develop its competence base

Competence development in this case refers to activities that are planned and organized in order to foster learning as a primary aim, but also to activities that have learning as a secondary and perhaps unintended outcome. According to the EC, any enterprise can develop its competence base by a number of different possible measures, that is to say, by recruiting
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the right competence from outside or by developing the human resources the organisation already possesses. This goal can be obtained from a double perspective: first of all, through the development of the competence base of its human resources, basically through different forms of formal and non-formal learning such as training courses, internal seminars, work groups, assistance to expos. This kind of perspective was termed by Nordhaug 1992 as the ' Development of in-house competence', which represents the measure a firm takes to develop their competence status available within their in-house human resources.

Further more competence development activities may be formal through internal or external courses that are deliberately planned and organized as means for work place learning. These activities may or may not result in a certificate, a diploma or a mark that is recognized by the educational system or on the external labour market. In many cases, courses are carried out to meet more specific needs at the workplace, and do not result in some kind of formally recognized certificate or mark. Workplace learning through formal activities are usually financed by the employer and carried out during working hours.

In contrast, informal competence development may occur through the participation of the individual in development projects at the workplace, staff-meetings, job rotation and team-based work among others. Such activities are generally characterized by a low degree of planning and organization from the perspective of learning.

The second approach is through obtaining the desired competence externally. Examples include the recruitment of new employees, the purchase of consultant services or co-operation with other external stakeholders. Nordhaug 1992 complements this approach by noting that external competence acquisition, where firms acquire (buy or by other means get access to) different external competencies that are outside the enterprise's boundaries that they internally lack but may be regarded as essential for the optimal performance of the firm. Relating to the work of Griffiths et al 2007, the definition of competence development in this paper will emphasize the focus on the continuous updating and building of both individual and organisational knowledge, skills and abilities.

2. 2. 2 A Four Stage Model of Competence Development

To simplify analysis, a model of competence development which consists of four stages is presented in this section:

Figure 2: Competence Development Model

Adapted from Griffiths et al 2007: Page 134

According to the figure above, the cycle of competence development starts with a process of orientation, in which the learner determines which competences that need to be developed. Once this decision has been made, the learner has a choice. One very quick route, typical for informal learning and competencies related to leisure activities, is to go directly to the competence development activities, based on the learner's interests and only very little knowledge of their current proficiency level. The other route,

more related to formal learning and to professional development is to proceed by collecting evidence, which shows the learner's current proficiency level. After the learner has collected this evidence, they can again choose: either they can have their proficiency level officially recognized by others, or they can go directly to the competence development activities. Again, the latter route is the more informal learning route.

Griffiths et al 2007 emphasizes assessment by others is the point where the formal learning route starts, where previous learning, which might have been either informal or formal, is turned into a formal recognition. When the cycle is passed through for the first time, the moment of assessment carried out by others is often referred to as intake assessment. The model is supplemented by Ogreaan 2009 who notes that through orientation and assessment, the model serves as the basis for ensuring that the organisation is well positioned to achieve its vision and strategic goals.

2. 3 Challenges towards SME Competence Development

An introductory picture into the challenges facing SME competence development is provided by EC 2003 that notes that specific SME research and studies taking a more holistic view of competence development in SMEs are very difficult to find. As a result, the share of SMEs participating in competence development is lower than the respective one for larger enterprises (Mandl and Dorr 2004).

SMEs are however not only constrained by limited information on competence development. According to Mandl and Dorr 2004 and EC 2003, <https://assignbuster.com/analysing-reviews-and-development-of-smes-in-ghana/>

smaller companies are indeed confronted with a wider range of barriers hindering the engagement in competence development than larger ones. The most important one they note constitutes the lack of time to both, strategically plan and participate in respective measures due to the dominance of the daily business.

Mandl and Dorr 2004 specifically note that limited financial and human resources constitute the main barriers for SMEs to engage in competence development activities. Generally, employees are too much involved in the daily business life to have time to engage in qualification measures and due to the restricted number of employees no proxy is available in many cases.

It is further noted that SMEs are often sceptical towards external advice and training as they are not informed about what is offered and/or are unsure about the quality or the price-performance ratio. Furthermore, the programmes offered do in most of the cases not correspond exactly to their needs. Stone 2010 observes that small firms often report difficulty accessing training tailored to their needs in terms of type and quality, scheduling and location.

Additionally, SMEs fear that higher qualified employees will leave the company because of a lack of incentives such as higher salaries and career chances in larger enterprises. Larger firms often pay higher wage rates, so formal qualifications are perceived by many small employers as more valuable to employees than the business itself (Stone 2010). This is worsened by the fact that these firms lack competence development specialists in the company: very few SMEs indeed dispose of experts in the

field of competence development leading to a lack of a systematic competence development scheme in these firms. This barrier is also mentioned in terms of lacking plans and personnel for conducting the training or identifying the company competence needs

Another obstacle identified from empirical research (Stone 2010) is that that small employers commonly lack information on what training is available to them, as well as evidence of the benefits of training to set against perceived and real barriers to training activity. Even where they perceive training to be of value, releasing employees for especially formal training is more difficult for smaller employers. Lost working time is an especially important constraint with respect to owner-manager training.

According to OECD 2002, for a variety of reasons, smaller firms are less likely than larger enterprises to provide external training to all grades of workers, including managers. In addition to financial constraints, information gaps make smaller firms less aware of the benefits they would obtain from management training and few see training as a strategic tool. Due to higher turnover in managerial staff, small firms may not realise the same benefits from training investments as larger firms.

Chapter Three: Competence Development for SME Growth and Competitiveness in Ghana

3. 1 Competitiveness: Definition and Concept

Competitiveness can be assessed at either the national or the enterprise level (UNCTAD 2005). At the national level, competitiveness has been

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defined as a nation's ability to produce goods and services that meet the test of international markets while simultaneously maintaining and expanding real incomes of its people over the long term. The ability to compete in international markets is usually thought to be dependent on macroeconomic policies and conditions (trade policies and exchange rates among others) as well as on a nation's comparative advantage that is its factor endowment (land, labour and capital).

At the enterprise level, competitiveness is the ability to sustain a market position by, supplying quality products on time and at competitive prices through acquiring the flexibility to respond quickly to changes in demand and through successfully managing product differentiation by building up innovative capacity and an effective marketing system (UNCTAD 2005). The difference between the competitiveness of an enterprise and that of a nation is that the enterprise will cease to exist if it remains uncompetitive for long whereas a nation never goes out of business no matter how badly it is managed or how uncompetitive it is. When a nation loses its competitiveness, this is reflected in its deteriorating welfare conditions rather than elimination from the market.

To achieve continuous competitiveness, enterprises must transform their ways of competing: they must shift from comparative advantages such as low-cost and labour, to competitive advantages, namely the ability to compete on cost and quality, delivery and flexibility. Such competitiveness may depend on the business environment, sophistication of company operations and inter-firm cooperation.

According to UNCTAD 2005 however, since an enterprise does not produce in a vacuum, its competitiveness can only be measured within various types of market territories at the sub national, national and supra-national levels. The optimization of its capital resources (finance, technology, labour) commands its ability to penetrate each of these three market territories. In general, OECD 2004 identifies that it is up to the SMEs to implement competitive business operating practices and business strategies. However, the options available to SMEs are also closely related to the quality of institutions, markets and organizations that constitute the business environment. These will however depend on the efficiency and effectiveness of institutions, markets and organizations that encourage or discourage SMEs to take their cues for learning new ways of doing business, compare their own competitive characteristics with those of their rivals, and makes their decisions to invest, including the introduction of innovations into their business strategies.

In conclusion, UNCTAD 2005 notes that competitiveness is embodied in the characteristics of the firm, namely through: the current efficiency and effectiveness of the use of resources; the willingness and the ability to relate profitability to growth of capacity through continued investment. Although the authors concur with the view that competitiveness is created at the firm level, it is also emphasized that this is partly derived from a systemic context, emerging from complex patterns of interactions between government, enterprises and other actors, and will therefore exhibit different forms in each society. In addition, external competitiveness can be achieved by firms through exports, sustaining diversification and/or better quality of

production, upgrading technology and skills, and expanding the base of domestic firms to compete regionally and globally. A firm is competitive in external markets depending on its ability to supply quality products on time and at competitive prices and to respond quickly to changes in demand by building up innovative capacities and market strategies.

3. 2 Linking Competence Development Activities to SME Growth and Competitiveness

In the current competitive and complex economic environment, human capital is increasingly recognised by both countries and by business organisations as a key engine for growth and competitiveness (Lundstedt 2001, EC 2003, Moe 1995). Moe further identifies that companies will rarely be allowed to benefit significantly from competitive advantages in terms of monopolies or privileged access to certain raw materials, special means of production or protected markets. The success of any company will depend on its ability to compete in the management of resources and in exploiting markets which are in principle available to all.

Competitiveness in the market-place, as well as for the best people, will also increasingly depend on the environmental qualities of the company. Thus, the key to success is in a superior ability to recruit, develop and mobilize human resources. The best way to adapt to the changing environment and new requirements is to increase the organization's competence and to use it in the best possible way (Lundstedt 2001).

Against such a background of globalisation and competition, the availability of up to- date knowledge, also within the smallest enterprises, is of increased

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significance not only for the individual company but also for the economy as such (Mandl and Dorr 2004). The authors further note that the current economic environment is characterised by global competition, fast technology developments, shorter product life cycles, more demanding consumers and changing enterprise structures through merges, alliances and take-overs. Thus, the new growth theories make economic growth dependent on the rate of accumulation of both physical and human capital, defined by the levels of knowledge, skills and competencies of the workforce (EC 2003)

Another important concept of how SME competitiveness could be advanced through competence development is provided by Koch, Gill and Ellström 2006, who argue that competence development can result into increased individual and organizational performance. This view is supported by Stone 2010; in his famous quotation that $\frac{1}{2}$ Firms that train their workers are significantly less likely to close than those that do not $\frac{1}{2}$ (Kock, Gill and Ellström 2006). In addition to this, Fretwell 2002 notes that employee morale is created by and directly proportional to the degree of employee competence supported by leaders throughout the organization. Employee morale within an organization in turn has a direct impact on the satisfaction level of its customers and the company's ultimate success. When relationship-based leaders promote core competency development of its workforce throughout the organization, an opportunity exists for ensuring high employee morale and customer satisfaction, an increase in employee and customer retention rates, and a positive long-term outlook for the company's successful performance. Common knowledge suggests that

employee morale has a direct impact on the satisfaction level of an organization's primary external customers.

In general, firms that are able to invest in the development of their human capital and the improvement of organisational capabilities will be able to gain a competitive advantage need to survive in today's competitive world.

3.3 Implications for SMEs in Ghana

A clear analysis of the prevailing environment for SMEs in Ghana indicates that the combined forces of globalisation, technological progress and growing market demand pose a challenge to SME competitiveness. However, there are a number of ways in which small firms can get around this situation. To support analysis, several implications for SMEs in Ghana have been identified through the framework for SME competitiveness as displayed in the figure that follows:

According to ECA 2001, the framework distinguishes between factors that are internal and external to the enterprises. The large circle in the centre of the diagram captures the key internal requisites and processes that might lead to increased competitiveness in enterprises. These inputs are often called technological capabilities and they are defined as the knowledge, skills and efforts required for firms to bring about an indigenous process of technological development.

ECA further emphasizes that such capability acquisition cannot be taken for granted and often requires purposeful and cumulative efforts aimed at

assimilating and modifying existing technologies, adapting them to local conditions. This is especially the case in Ghana since major innovations are still concentrated in technologically advanced countries.

Figure 3: Framework to support SME Competitiveness

Source: ECA 2001 Page 12

On the other hand, marketing capabilities are required to make the product available and attractive to the buyer. They include activities concerned with establishing a marketing channel from the factory to the buyer (direct sales or intermediaries), organising the logistics (related to mode and speed of transport), promotion (advertising, branding) and after sales service.

Further more, research has shown that capability building and competitiveness also depend on factors external to the firm. As shown in Figure above, this external context is given first by the type of network or cluster to which the firms belong. It is now well recognised that the lonely enterprise is doomed and the quality of relationships with other producers, suppliers and customers is critical for learning and competing (ECA 2001).

The framework further identifies clustering to facilitate the mobilisation of financial and human resources. In summary, clusters and networks constitute the immediate external context in which SMEs operate. The benefits of clustering are widely acknowledged: the spatial and sectoral concentration of firms generates externalities, favours inter-firm cooperation and constitutes a niche for effective policy support. This fact is reaffirmed by UNCTAD 2005, that observes that the competitive pressure of globalization

brings about the need for SMEs to come together in order to survive and grow. The formation of trade associations and industrial groups/clusters are accordingly being promoted. A commendable example of such clustering for competitiveness is observed in the Ghana metalwork cluster in Suame that has generated positive externalities for SMEs, namely access to markets, labour market pooling and significant technological spill-overs.

OECD 2010 for example further suggests that SMEs acquire new knowledge and skills that will enable them to obtain the ideas they require for innovation and the markets to exploit them. A major message is that small firms do not innovate by themselves but in collaboration with suppliers, customers, competitors, universities, research organisations and others. These networks will then help them overcome some of the obstacles to innovation linked to their small size. Needless to say however, the quality of their local entrepreneurship environments, strength of local technology partners, and the quality of local science-industry linkages is critical to SME com