

# How has managerial incompetence contribute to small scale enterprise in the count...

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## 1. 0 Introduction

Many businesses begin operations on a shoestring, and some entrepreneurs never seek bank loans or other outside funding. However, many new and established businesses lack the managerial competences needed to run these businesses. Without the relevant managerial skills, many entrepreneurs find it difficult or impossible to successfully manage their businesses or to launch their businesses and grow it to the levels that they require. Some business owners need bank loans to finance the growth of their companies. Many businesses especially SMEs lack the key managerial skills and competences needed to run a business while others may need bank loans just to keep the doors of the business open. Some businesses need little or no equipment, while others, such as retail outlets and restaurants, will require large outlays for equipment at every phase of operations.

## 1. 1 Background to the study

Small and Medium Enterprises (SMEs) have been acknowledged as the live wires through which the developmental aims of developing nations can be realized. Small and Medium Enterprises (SMEs) are found in both urban and rural areas, and cover a wide spectrum of economic activities which includes Small Scale Manufacturing Enterprises (SSMEs). According to the Organization for Economic Cooperation and Development (OECD, 2005) survey, estimate has it that, SMEs contribution to total Gross Domestic Product (GDP) is at about 22 per cent. Ghana has a relatively long history of government initiatives to promote and finance SMEs. However, managerial Incompetence remains the major constraint to SME development in the country (Business and Financial Times, 2010).

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Boapeh, (1993) narrated that, as far back in the 1960s Small and Medium Enterprises (SMEs), sponsorship was less notable in Ghana. The then leader of the republic, Dr. Kwame Nkrumah concentrated much effort on state involvement as a way of transformation and modernization, without encouraging the domestic indigenous sector, which was seen then as impending political danger by the government. The prevalence of difficult economic conditions in the 1980s did not help matters. These difficulties reduced capacity utilization in the large - scale sector which was as a result of; rising inflation and declining real wage which pushed out a lot of workers in the formal sector into menial jobs and self-employment by establishing small scale enterprises in order to make a decent living. Small-scale enterprises were then seen as viable and an alternative avenue of earning a decent living in Ghana and many other developing economies.

Statistically there is about 22% of the adult population engaged by SMEs in developing economies (Daniels and Ngwira, 1993); it was therefore not surprising that when the economic downturn prevailing in the 1980s adversely affected employment in the large-scale manufacturing sectors, there was an increase in the employment rate recorded by small-scale enterprises in Ghana.

UNIDO, (1999) cited by Abor and Quartey, (2010), said that SMEs represent over 90% of private business and contribute more than 50% of employment and of GDP in most African countries. Steel and Webster, (1991); Aryeetey, (2001); cited by Abor and Quartey, (2010) also said that SMEs in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment of Ghana.

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SMEs are also believed to contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana. (CSS, 1998; Ntsika, (1999); Gumede, (2000); Berry et al, (2002); cited by Abor and Quartey, (2010).

Webster, (1990) published that, small scale and self employment grew by 2.9% per annum (ten times as many jobs as large scale employment) but their activities accounted for only a third (33.33%) of the value added. This necessitated government to institute measures to promote small-scale enterprises, which are seen as vehicle via which there can be an evolution from a state-led economy to private sector-led economy. However, for any intervention to succeed there was the need for research to be conducted in order to identify existing and potential challenges so as to fashion out appropriate policies that will ensure that SMEs really succeed in promoting the developmental agenda of the government.

According to Boapeah, (1993), the following are amongst identifiable constraints of SMEs: •Competition from the large -scale industries •Difficulty in accessing appropriate advisory services and research findings •The over liberalization of the economy • Lack of access to credit facilities •Lack of managerial skills and competences

## 1.2 Problem Statement

Most SMEs in the country lack the capacity in terms of qualified personnel to manage their activities. As a result, they are unable to publish the same quality of financial information as those big firms and as such are not able to provide audited financial statement, which is one of the essential requirements in accessing credit from the financial institution.

This is buttressed by the statement that privately held firms do not publish the same quantity or quality of financial information that publicly held firms are required to produce. As a result, information on their financial condition, earnings, and earnings prospect may be incomplete or inaccurate. Faced with this type of uncertainty, a lender may deny credit, sometimes to the firms that are credit worthy but unable to report their results (Coleman, 2000). Despite the very important roles that SMEs play in the economy of Ghana and all over the globe, quite a number of hurdles darken the bright future of SMEs. Identified constraints include Innovation in technology, inadequate infrastructure, skill gap, adverse operating environment, few financial instruments, absence of formal business plan and records, proper licenses and agreements etc douses all ray of hope for financial support.

Regulatory constraints also pose serious challenges to SME development and although wide-ranging structural reforms have led to some improvements, prospects for SMEs development remain to be addressed at the firm-level. The exorbitant start-up costs for firms, which include licensing and registration requirements, are yet another hurdle for SMEs. Despite the numerous institutions, providing training and advisory services there is a general paucity of managerial skills and motivated entrepreneurs who can compete with the larger firms.

This is because entrepreneurs either cannot afford the high cost of training and advisory services or do not see the need to upgrade their skills due to complacency. The lack of support services or consulting firm's relatively higher unit cost hampers SMEs' efforts to improve their managerial efficiency. According to Coleman (2000) the lack of managerial skills has <https://assignbuster.com/how-has-managerial-incompetence-contribute-to-small-scale-enterprise-in-the-country/>

lead to poor decision taking, poor planning, poor control activities and has lead to the collapse of most small businesses with start-ups accounting for 15% - 20% of this number. It is for this reason that a study needs to be conducted to find out the impact of managerial incompetence to the growth of small business.

### 1. 3 Objectives of the Study

In assessing the impact of managerial incompetence on the growth of small business enterprises the following objectives will be looked at in this study. These are:

- To determine the various managerial skills required by small business managers in Ghana
- To what extent does managerial competence affect growth of small business
- to examine the role of Government in the development of the managerial skills of small business owners

### 1. 4 Research Questions

- what is management
- What managerial traits are managers of small business expected to have?
- What are the challenges that small business managers face in their bid to acquire the requisite managerial skill?
- What is the role of government in the development of small businesses

### 1. 5 Significance of the study

The study will be useful to the SME operators, managers and management of these companies as they will have a broader knowledge and understanding of the unique challenges managerial skill pose to small businesses in the country. To industry regulators, it will help them appreciate the various forms of challenges SMEs are exposed to enable them formulate appropriate strategies to help finance this sector. It will contribute to knowledge in this

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area by providing insights into the challenges SMEs face in the area of lack of managerial skill and how this can be overcome.

### 1. 6 Scope of the Study

The research will be conducted within the Okaishie area of Accra which is bounded on the west by High Street on the east by Kantamato and the north and south Arena and Ministries respectively with 543 small businesses with a wide range of retailers. The study will cover a period of 2007 to 2012.

### 1. 7 Limitations

Due to limited time and financial constraints, it will be impracticable to survey the entire population. Despite these limitations, the researcher covered sufficient information that will aid effective decision-making policy direction from stakeholders.

### 1. 8 Organization of The Study

The study is spread over five (5) chapters. Chapter one constitutes the introduction, background, the problem statement, objective, methodology, scope, significance, limitation and organization of the study. Chapter two deals with literature review. Chapter three covers research methodology and sampling method. Chapter four considers the analysis of findings from interviews and questionnaires and Chapter Five deals with summary conclusion and recommendations of the study.