

Constraints Facing New and Existing Small and Medium-Scale Enterprises (SMEs) in Greater Accra Region of GHANA

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ABSTRACT

This study investigated the constraints facing new and existing Small and Medium-Scale Enterprises (SMEs) in Greater Accra Region of Ghana. The study used semi-structured questionnaires to collect data from management members of 30 new SMEs and 40 existing SMEs. Descriptive statistics such as pie chart, bar chart, frequency tables and percentages were used to present the results of the data. The study identified high cost of renting premises, as the commonest constraint facing new SMEs. Meanwhile, low income is the commonest constraint that affects existing SMEs. This study recommends that government should regulate the amount of rent charged by shop owners. New SMEs should contact existing SMEs so as to adopt the coping strategies that they are using to succeed in spite of the numerous constraints identified. Additionally, the formation of business associations should be intensified to help give credit to the member SMEs to expand their business.

Keywords: *SMEs, Greater Accra Region, Ghana, Constraints and Coping Strategies*

1. INTRODUCTION

In both the developed and developing countries of the world, policy-makers at local, regional and national level have come to realize the significant role that small and medium scale enterprises (SMEs) play in terms of employment, wealth creation and the development of innovation (Nieman et al., 2003). There is no clear cut definition for SMEs. Many researchers and institutions have defined SMEs to suit their agenda. Abor and Quartey (2010) noted that SMEs are defined by these researchers base on capital assets, use of skill labour, turnover level, legal status and number of permanent and casual labourers. According to Teal (2002), SMEs in Ghana are classified into (i) micro enterprise (less than 5 employees); (ii) small enterprise (5 - 29 employee); and (iii) medium enterprise (30 - 99 employees). This number of employees used in defining SME varies across national statistical systems. According to USSBA (2004), a Small and Medium Enterprise (SME) in US is an enterprise which employs less than 500 persons with an employment threshold of 20, 100 and 500 mark businesses out as micro, small and medium enterprises respectively. Many researchers; Audretsch (2002), Craig and Kohlhase (2006) and Kobe (2007) have looked at the immense contribution of SMEs in economic development, particularly the role they play in employment generation and tax contribution in the economy.

Many countries have placed premium on SMEs as new ways of survival for their business enterprise. The SMEs are important to most economies including Ghana, because they provide job opportunities for the populace.

The Greater Accra Region of Ghana alone, has (30.4%) of its population engaged in wholesale and retail trade while (16.7%) are in manufacturing activities (Ghana District Repository, 2006). These are the most dominant types of SMEs in Ghana (Ghana District Repository, 2006).

The sole aim of every SME is to make profit. However in recent times while some SMEs in Ghana make abnormal profits others cannot even make break-even. The existing SMEs wished to have done better than they are doing. Meanwhile, certain constraints have restricted their wish. These constraints run across board including economic, trade, political and environmental. SMEs in Ghana like their counterparts around the globe were slightly hit by the worldwide economic crisis due to high exchange rates transcended to Ghana. Not only that but also, they have been struggling to cope with small domestic demand of their products. As a result, some of the businesses have already been folded up while others operate under capacity. The situation is getting off hand even for those who are yet to enter but remain on the bench as a result of entry barriers. As it is noted by Fadahunsi (2012), a policy framework must look at SMEs entry into the business as well as their sustainability. In this research new SMEs are enterprises that have been in business for one year and below as at 31st December, 2011. Also, existing SMEs are small scale businesses that have consistently operated above one year as at 31st December, 2011. Despite this importance of SMEs in Ghana and for that matter, in Greater Accra region, certain constraints affect their operations. These constraints might affect the growth of businesses in Ghana.

The specific objectives of this study are: 1. to identify the constraints facing new and existing SMEs in Greater Accra Region of Ghana; and 2. to examine the coping strategies employed by existing SMEs in minimizing the effects of the identified constraints.

When this study is completed, it will be of good help to policy makers because it will suggest some policy actions that need to be taken to enhance the performance of SMEs in the study area and the country at large. It will also help new SMEs know the coping strategies that the existing SMEs are using to minimize the effects of trade and economic barriers on their businesses.

2. LITERATURE REVIEW

According to CIC (2006), the three categories of modern businesses are industrial enterprises, trading and distributive enterprises and service enterprises. The contribution of the service sector especially SMEs to Ghana's Gross Domestic Products (GDP) cannot be over-emphasized. The service sector is second in terms of its contribution to the growth of Ghanaian economy (ISSER, 2010). Some SMEs such as wholesale, retail trade, restaurants and hotels recorded a growth rate decline from 10.2% in 2008 to 2.8% in 2009 (ISSER, 2010).

UNIDO (1999) stated that SMEs represent over 90% of private business and generate about 50% employment in most African countries. SMEs in Ghana provide about 85% of employment in the manufacturing sector in Ghana (Aryeetey, 2001). According to Abor and Quartey (2010), SMEs contribute about 70% to GDP of Ghana and account for about 92% of businesses in Ghana. SMEs in Ghana are found in financial institutions, hotel industries, manufacturing industries, production, petty trading, agricultural sector and transportation. They engage in activities such as retailing, trading, or manufacturing (Fisher and Reuber, 2000). Many SMEs are female dominated in Ghana. There are SMEs that operate in the rural areas and those that operate in the urban centres. Due to the small size of SMEs, they are able to withstand any shock in the economy.

3. METHOD OF DATA ANALYSIS AND SAMPLING

The constraints (trade and economic barriers) facing new and existing SMEs and the coping strategies employed by existing SMEs were identified by using structured questionnaire. Primary data was collected by administering structured questionnaires to the respondents (management members) of the SMEs. Cross-sectional data was collected from seventy (70) SMEs operating in the region. The data collected were analyzed using descriptive statistics (charts and frequency tables). Statistical Package for Social Sciences and Microsoft Excel were used to analyze the data

4. STUDY AREA

Greater Accra Region is the smallest of the ten administrative regions in Ghana in terms of land area. It occupies a total land area of 3,245 sq km with a total population of 4,010,054 (GSS, 2011). It shares boundaries with Eastern Region to the north, Volta Region to the East, Gulf of Guinea to the south and Central Region to the West. The 2010 population and housing census indicated that the region has the highest percentage of urban population of 16.3%. About 31.6%, 14.8%, 9.0% and 5.2% of the people in the region are actively engaged in wholesale and retail trade, manufacturing industry, accommodation and food industry and agricultural sector respectively. More females (69.3%) are self-employed than males (60.0%).

As a region which contains the capital city of the country, it is battling with rapid urbanization due to the administrative functions it perform in the area of industry, manufacturing, commerce, business, culture, education and political. It also attracts migrants, not only from neighboring countries but from all over the world.

5. RESULTS

5.1 Types of SMEs

Most of the respondents interviewed for both new and existing SMEs were engaged in trading and distribution enterprises. Out of 30 respondents interviewed for new enterprises, 12 of them representing 40% were involved in trading and distribution enterprises. For the existing enterprises, 40 respondents were interviewed. Out of this, 19 respondents constituting 47.5% were actively involved in trading and distribution businesses. Also the least number of respondents for new enterprises were engaged in industrial sector. This was not the case for existing SMEs. For existing SMEs, it was rather the service enterprises that had the least number of firms interviewed. The number of firms involved in the service enterprises for new SMEs and existing SMEs were 10 and 7 respectively. For industrial enterprises 8 were new while 14 were existing.

5.2 Constraints to entry facing new SMEs

Structured interview questionnaires at firm level revealed a lot of constraints (trade and economic barriers) to entry facing new SMEs in the study area. When these constraints were analyzed and grouped according to their commonalities, nine (9) barriers shown in figure 1 under the appendix were identified. The number of new firm holders interviewed was 30; however each respondent mentioned more than one constraint as a constraint to entry. The responses in this study represent the number of respondents that listed a particular barrier.

The trade and economic barrier with the highest frequency of responses is high cost of renting premises. In figure 1, 26 out of 30 respondents listed high cost of renting premises as a constraint to entry facing new SMEs. Out of 127 frequencies of responses indicated, 20.5 percent of them were common to high cost of renting premises. This is because Accra as a capital of Ghana is highly populated and there are no enough shops for people to rent. So the few shops available are being demanded by more people for establishing businesses. Based on the law of demand, the higher the demand for shops, the higher the price of shops (rent) *ceteris paribus* (Koutsyiannis, 2003).

Low investment capital which is the second most mentioned constraint recorded 21 frequencies of responses constituting 16.5 percent. In order of decreasing number of frequency of responses, high interest rate (21), high wages (18), low capital investment (17), complex land tenure system (15), high income and property taxes (10), limited market information (8), bureaucratic hurdles (7) and high cost of registering businesses (5) were also mentioned.

The least stated constraint to entry facing new SMEs was high cost of registering businesses. This had 5 frequencies of responses representing only 3.9 percent of the total responses. Therefore, it can be concluded in this study that high cost of renting premises is the major and most serious constraint preventing new SMEs from entering into potential markets. This is because most of the staff at management level for new SMEs mentioned it when interviewed. This constraint coupled with others indicated in the figure 1 makes most of the potential business enterprises to remain on the bench. Even those who were able to start their businesses find it difficult to sustain their existence.

5.3 Constraints facing existing SMEs

The pie chart shown in figure 2 under the appendix depicts the percentage of responses for the constraints (trade and economic barriers) facing existing SMEs from operating successfully as well as penetrating into new markets. Management members of 40 existing SMEs were interviewed and they listed eleven trade and economic barriers to entry. The number of responses that emanated from the interview is 291. Out of 291 total responses, 40 of them representing 14 percent mentioned low income as a major constraint facing existing SMEs. Henceforth, 100 percent of the respondents consider low income as a factor that affects them. According to ISSER (2010), the Ghana Government embarked on contractionary fiscal policy in 2009 in which the money in the economy reduced thereby lowering the income levels of firms and the general population. As such, most of the existing SMEs are finding it difficult to expand the sizes of their businesses or venture into new markets or industries. Also, customers do not have enough money to purchase goods.

High inflation and high wages recorded equal percentages of responses (13% for each). This implies that there is no significant difference between the degree of the effects of high wages and high inflation on existing SMEs in the study area. High inflation situation as a constraint is in line with the high inflation rate that the country experienced in 2008 and 2009 (ISSER, 2010). In Ghana, the high inflation that was experienced in the above mentioned years was transmitted from the advanced economies which experienced economic and financial crisis. These problems were transported to the third world countries such as Ghana which depends on first world countries in financing its economy as well as the large importation of goods from these countries.

High interest rate (8%), high cost of renting premises (8%), competition (8%), limited suppliers (7%), disloyalty of customers (5%) and incompetent employees (5%) are other factors that are faced by existing SMEs. Disloyalty of customers and incompetent employees are the least recorded constraints facing existing SMEs.

5.4 Common constraints facing new and existing SMEs

Comparing the constraints revealed by new and existing SMEs as shown in figures 1 and 2 respectively, it was carefully observed that only four are common. The constraints which are common to both new and existing SMEs are high wages, high cost of renting premises, high interest rate and high income and property taxes.

5.5 Coping strategies for the identified constraints

The coping strategies used by existing SMEs in reducing the effects of the identified constraints are illustrated in Table 2 under the appendix.

Coping strategies to low income

Table 2 in the appendix depicts the coping strategies used by existing SMEs in minimizing the effects of low income on their businesses. Many respondents were of the view that taking loans from their businesses' associations is the best strategy for dealing with low income as a constraint. Out of the 40 respondents, 15 of them representing 37.5 percent take loans from their associations as a coping strategy to low income. According to the management members interviewed, their business associations charge low interest rate as compared to other sources of credits. The other coping strategies to low income are taking loans from banks (32.5%), money lenders (15%), relatives and friends (15%).

Coping strategies to high wages

Majority of the respondents adopts reduction in the wages of employees as a coping strategy in managing the effects of high wages. Out of 40 management members

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of existing SMEs, 16 of them constituting 40.0 percent indicated that reduction in wages of workers is the most effective coping strategy that they adopt in minimizing the effects of high wages on their businesses. This is followed by replacement of incompetent workers with computers (30%), use of family labour (20%) and employment of less and unqualified employees (10%). This could explain the reason why unemployment rate in the study area is on the increase as indicated by GSS (2007). The inability of the private sector to absorb the unskilled youth has necessitated the government to establish the National Youth Employment Programme (GoG, 2006). Eventhough, National Youth Employment Programme is mandated to train the unskilled youth, these is been done at a slower pace thereby resulting in high persistent of unskilled labour in the country.

Coping strategies to high inflation

The coping strategy with the highest number of respondents (28) for high inflation is bulk purchasing and storage. Bulk production (17.5%) and contract buying (12.5%) were also mentioned. From Table 2, only 5 respondents representing 12.5% existing SMEs believe in contract purchasing as an effective strategy in minimising the effects of high inflation on their businesses. With contract and bulk purchasing cum storage, existing SMEs are able to lessen the adverse effects of future increases in market prices of goods. This also help them to stabilise the market prices of goods.

Coping strategies to competition

In Table 2, the largest number of management members (30%) of existing SMEs agreed that effective advertisement is the best coping strategy for competition. This is followed by attractive packaging and labeling of goods (22.5%), good customer relations (20%), promotions and discount sales (17.5%) and change of business (10%).

Coping strategies to incompetent employees

Most existing SMEs conduct in-service training for their workers in order to solve or minimise the effects of incompetent employees. 17 management members representing 42.5% of the SMEs interviewed usually organise in-service training for their employees who lack the requisite skills. Other coping strategies for dealing with incompetent employees are scholarship packages (10%), orientation (17.5%) and motivation (30%).

Coping strategies to high cost of renting premises

The major coping strategy (the strategy with the highest percentage i.e. 50%) for high cost of renting premises is acquiring personal shop for the business in the long run. In terms of decreasing order of percentage of respondents, use of family members' shops (27.5%), use of

containers (15%) and selling under trees or open space (7.5%) were other strategies used by existing SMEs in coping with high renting cost.

Coping strategies to high interest rates

Due to high interest rates charged by financial institutions on loans, majority of the existing SMEs (32.5%) borrow money from their business associations. This is because business associations charge low interests on loans as compared to financial institutions. About 27.5% agreed that ploughing back business profit make them get enough working capital for their day to day operations. Money lenders are also important source of getting loans. 20% of the respondents are of the view that taking loans from these money lenders do not attract high interest rates as compared to financial institutions. Money lenders are readily available to assist them any point in time.

Coping strategies for limited suppliers

Out of 40 respondents, 25 representing 62.5% adopt bulk purchasing of goods and storage for future sales whereas 15 respondents representing 37.5% sign agreement (thus have contract purchasing) with suppliers for future delivery of goods. According to the management members of existing SMEs, these coping strategies are the best solutions to incredible behaviours of, as well as inadequate suppliers.

Coping strategies of disloyalty of customers

The coping strategies that existing SMEs are using to minimize the disloyalty and incredible behaviours of customers are transportation packages for purchased goods, promotions and discount sales, good customer relations and credit sales. To them, when these offers are given, their customers then to get stuck to purchasing their products. All the 40 respondents did not list any strategies that they use to cope with high income and property taxes as well as small market size.

5.6 Conclusion and policy recommendations

New and existing SMEs in Ghana are grappling with varied constraints. The constraints facing new SMEs are cost of renting premises, low capital investment, complex land tenure system, high wages, high interest rate, high income and property taxes, limited market information, bureaucratic hurdles and high cost of registering a business. The constraint with the largest number of responses is high cost of renting premises. Also, constraints that were listed by existing SMEs in order of decreasing number of responses are low income, high inflation, high wages, small market size, high interest rate, competition, high cost of renting premises, high income and property taxes, limited suppliers, disloyalty of customers and incompetent employees. The constraint

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which had the highest frequency of responses is low income.

Base on the coping strategies identified in the study area, the following recommendations are pertinent. The government, through Ministry of Trade and Industry, Ministry of Local Government and Rural Development as well as Rent Control Department should regulate the amount of rent charged by shop owners or landlords and landladies. Even though, Accra Metropolitan Assembly in collaboration with other investors is building shops to be rented to SMEs, this gesture should be incorporated and intensified in the activities of other Sub-Metropolitan Assemblies in the region.

Also, the government should reconsider the contractionary monetary policy and embark on expansionary monetary policy to deal with low incomes of the populace and SMEs. Additionally, the formation of business associations should be encouraged and the existing ones should intensify their activities so as to get more money to assist their members. With this, other existing SMEs which are members of their business associations will get enough money to solve the problem of low income. Lastly, Bank of Ghana should lower its prime rates. With this, the interest rates of financial institutions will be low for SMEs to be able to acquire loans to deal with low income.

Existing SMEs should try as much as possible to package and label their products in order to distinguish their products from others. This will be of good help for them in dealing with competition. It is also recommended that they should buy goods in bulk when the prices are low in order not to be affected by inflation.

As noted by Maseko and Manyani (2011), it was observed that the various SMEs lack the accounting knowledge but this was noted formerly investigated in this research. There, future research should focus on the accounting practices of SMEs.

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APPENDICES

Appendix 1

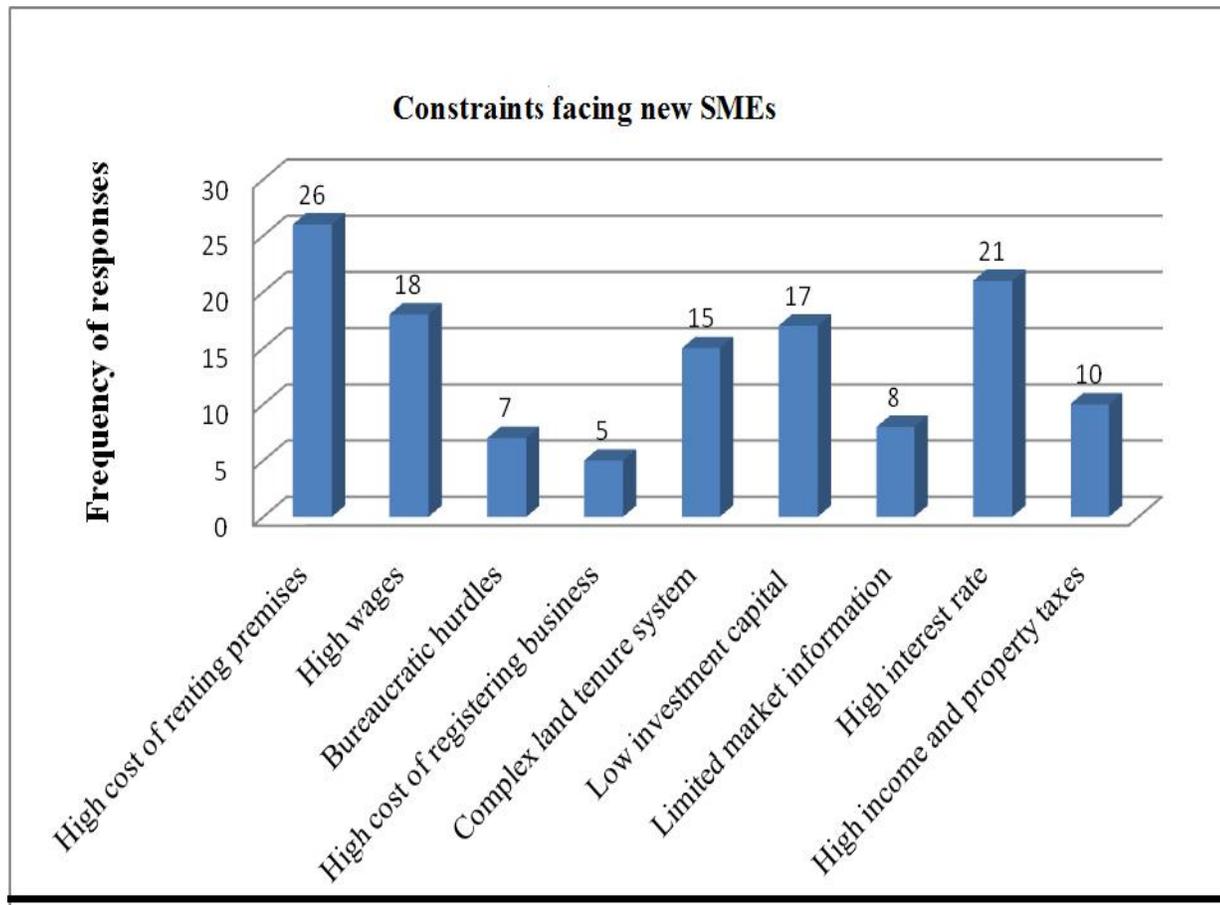


Figure 1. Constraints facing new SMEs

Source: Field Results (2011)

Appendix 2

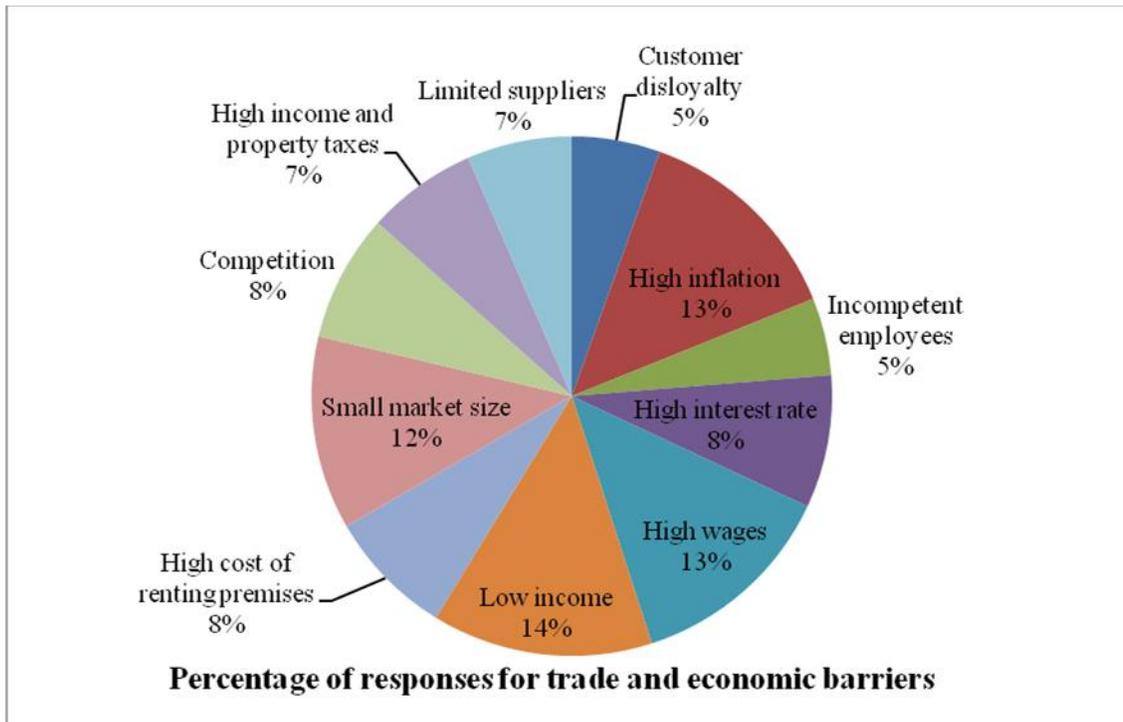


Figure 2: Constraints facing existing SMEs

Source: Field Results (2011)

Appendix 3

Table 1: Frequency of common constraints facing new and exiting SMEs

Common barriers	Frequency of New SMEs	Frequency of Existing SMEs
High wages	18	38
High interest rate	21	24
High cost of renting premises	26	23
High income and property taxes	10	20

Source: Field Results (2011)

Appendix 4

Table 2: Coping strategies for the identified constraints

Coping strategies for trade and economic barriers	Frequency of respondents	Percentage of respondents
Low income		
Loans from banks	13	32.5
Loans from relatives or friends	6	15.0
Loans from member associations	15	37.5
Loans from money lenders	6	15.0
Total	40	100.0
Coping strategies for trade and economic barriers	Frequency of respondents	Percentage of respondents
High wages		
Use of family labour	8	20.0
Employing workers with low qualification	4	10.0
Replacement of workers with computers	12	30.0
Slight reduction of wages	16	40.0
Total	40	100.0
High inflation		
Bulk purchasing and storage	28	70.0
Bulk production	7	17.5
Contract purchasing and storage	5	12.5
Total	40	100.0
Competition		
Effective advertisement	12	30.0
Good customer relations	8	20.0
Attractive packaging and labeling	9	22.5
Promotions and discount sales	7	17.5
Change of businesses	4	10.0
Total	40	100.0
Incompetent employees		
Regular in-service training	17	42.5
Motivation	12	30.0
Offering scholarships for further studies	4	10.0
Orientation	7	17.5
Total	40	100.0
High cost of renting premises		
Use of family members' shops	11	27.5
Acquiring personal shops	20	50.0
Selling under trees or open space	3	7.5
Use of containers	6	15.0
Total	40	100.0
High interest rate on loans		
Loans from relatives or friends	8	20.0
Loans from business associations	13	32.5
Loans from money lenders	5	12.5
Loans from NGOs/financial institutions	3	7.5
Ploughing back profits	11	27.5

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Total	40	100.0
Limited suppliers		
Contract buying	15	37.5
Bulk purchasing	25	62.5
Total	40	100.0
Disloyalty of customers		
Transportation package on goods purchased	15	37.5
Promotions and discount sales	8	20.0
Good customer relations	5	12.5
Selling on credits	12	30.0
Total	40	100.0

Source: Field Results (2011)