



Challenges and Sustainable Development of Small and Medium-sized Enterprises: Evidence from a Local Processing Company in Ghana (Nkulenu).

Aphu Elvis Selase

PhD Candidate, College of Public Administration,
Huazhong University of Science and Technology,
Wuhan, Hubei, China 430074

Adator Stephanie Worlanyo

PhD Candidate, College of Public Administration,
China University of Geo Sciences,
Wuhan, Hubei, China 430074

ABSTRACT

Small and Medium-sized Enterprises (SMEs) have been shown by several studies which perform significant roles in economic growth and development worldwide. As often described, SMEs serve as efficient and profitable job creators as well as the seeds for big businesses and the fuel for engines of national economy. Even in the developed countries, SMEs Sector has been one of the largest employers. Interest in the role of SMEs in the developmental process continues to be in the lead of policy debates in most countries. Governments at all levels have undertaken initiatives to promote the growth of SMEs (Carsamer, 2009; Feeny and Riding, 1997).

Keywords: Sustainable; Development; Small; Medium-Sized; Local; Processing; Company; Ghana

BACKGROUND

In recent decades, SMEs have gained enormous attention from researchers and key stakeholders as an avenue through which low and middle income countries can step up into high income status. In Ghana, SMEs are known to be a characteristic feature of the production landscape and have been identified to provide more than 80% of employment. SMEs are also noted to contribute about 70% to Ghana's Gross Domestic Product (GDP) and also account for more than 90% of the local businesses. Therefore, SMEs play crucial role in stimulating growth, generating employment and contributing to poverty alleviation. SMEs development can improve both inter and intra-regional decentralization processes; and acting as a force to reckon with in catching up with these economic superpowers of larger economies in the developed world.

Furthermore, various definitions have been given for Small and Medium-sized Enterprises in Ghana, but the most commonly used criterion is the number of employees of the enterprise (Kayanula and Quartey, 2000). In using of this definition, issues often arise in respect of the unpredictability and cut off points used by the various official sources. According to the National Board for Small Scale Industries (NBSSI, 1990) SMEs are defined in Ghana as small-scale firms with plant and machinery (excluding land, buildings and vehicles). It has two criteria's which are the fixed assets not exceeding 10 million Ghanaian Cedi's and number of employees not more than 9. As indicated by the Ghana Statistical Service (GSS), firms with less

than 10 employees are considered as small-scale enterprises and their counterparts with more 10 employees as medium and large-sized enterprises. The GSS in its national accounts considered companies with up to 9 employees as SMEs (Kayanula and Quartey, 2000). The value of fixed assets in the firm has also been used as an alternative criterion for defining SMEs. Despite all the fortunes of SMEs globally, in Ghana little emphasis has been placed on the significant contributions of SMEs to the livelihoods and the economy. In addition, there seem to be inadequate research information update on the changing SME environment in Ghana. There are many SMEs operating in the country and each one of them faces some challenges which normally prevent them from growing and contributing to the economy. Therefore, our study investigated the limitations and barriers of local SMEs, and proposed sustainable development strategies as ways of improving the sector. In this study, we also investigated information from Nkulenu Industries limited, [a local processing company in Ghana] to provide an opportunity to clarify the strategies being adopted by several other companies alike.

Aryeetey (2001) indicates that SMEs in Ghana provide about 85% of employment in the manufacturing sector, while SMEs contribute about 70% to GDP and about 92% of businesses in Ghana (Abor and Quartey, 2010). In Ghana, SMEs are found in various sectors of the economy including financial institutions, hotel industries, manufacturing industries, production, petty trading, agricultural sector and transportation (Fischer and Reuber, 2000).

In Ghana Many SMEs are female dominated. A typical example is the Nkulenu Industries limited. Nkulenu Industries limited located in Accra, Ghana is an indigenous SME which was established shortly after World War 2 in 1942 by Mrs. Esther Ocloo. The ideal of Mrs. Esther Ocloo was the scarcity of canned beverages and processed foods which caused by the effects of the world war. The company has expanded to The United States of America and Europe through processing and canning Ghanaian local products.

RESEARCH METHODOLOGY

According to the data, 74.5% of the respondents are females and 25.5% males. This clearly shows that in Ghana most of SMEs activities are carried out by a lot of women and this confirms the 2010 housing and population census of Ghana which indicated that 51% of the population are females and 49% are males. Furthermore, the results of age profile indicated that 46% of the entrepreneurs were between the ages of 20-35 years, 46% (36-49 years) and only 6% were between 50-60 years. The analysis of educational background of the entrepreneurs revealed that 3% of the entrepreneurs have obtained tertiary education, 5% Senior High Technical or Vocational education, 43% basic education and as much as 49% had no formal education

The results also reveal that 73.8% have registered their businesses with the Accra Metropolitan Assembly (AMA), 26.2% registered with both Registrar General Department (RGD) and 44.7% have registered their businesses with either the Registrar General Department (RGD) or the AMA. With respect to enterprise ownership type, the results revealed that sole proprietorship contains the largest percentage (94.0%), partnership (5.0%) and corporate or limited liability company ownership was only 1.0%.

It was also perceived that 55.3% of qualified personnel within the SMES are considered very bad, 27% are bad, and 9.6% (average qualified personnel) and 8.1% are well qualified for the sector. Also, the survey revealed that 85% of the SMEs sell their product within AMA area, 11% of them also sell 50% of their products outside the AMA while only 4% sell their product entirely outside the AMA area.

From the data (table 1), we gathered that 44.7% of them thought that it is average, 25.5% believed that it is good, 16% thought that it is bad, 7.4% of the respondents believed that business atmosphere is very bad, whereas only 6.4% thought that it is very good.

From the data which revealed in the table 1, we can find that 44.7% of the respondents take the average attitude to the status of business atmosphere.

Table 1: Status of Business Atmosphere

| Rank | Frequency | Percentage |
|-----------|-----------|------------|
| Very bad | 7 | 7.2 |
| Bad | 15 | 16 |
| Average | 42 | 44.7 |
| Good | 24 | 25.5 |
| Very good | 6 | 6.4 |
| Total | 94 | 100 |

Field Survey, March 2018

It was also observed that majority (87.2%) of the entrepreneurs interviewed have developed new products and only 12.8% had not put on the market new products. Furthermore, it was realized that as much as 81.9% of entrepreneurs agreed and only 2.1% strongly agreed that sales have increased their sales over the past two years, whereas 12.8% and 3.2% of entrepreneurs strongly disagreed and disagreed respectively, that sales level have increased within the past two years. In addition, 50 % of those respondents indicated sales increased by 75 percent, 30 % reported sales increased by 100 % and 20 % recorded between 120 to 150 % sales increase within the past two years.

With respect to performance assessment of the Regional Administration, 40.5% of the SMEs indicated that its performance is very low, 34% noted that the staff have no experience, 20.2% indicated the performance as average and only 5% rated the administration high (table 2).

Table 2 Role of Regional Administration towards SMEs Development

| Rank | Frequency | Percentage |
|---------------|-----------|------------|
| No experience | 32 | 34 |
| Very low | 15 | 16 |
| Low | 23 | 24.5 |
| Average | 19 | 20.2 |
| High | 5 | 5.3 |
| Total | 94 | 100 |

Source: Field survey March 2018

On the contrary, 53.2% of the entrepreneur had not experienced the activities of supporting agencies like National Board for Small Scale Industries, 17% are not aware of the existence of such organization providing them with support services, but though they are aware of the other supporting agencies, 22.3% indicated low impact by these agencies and only few found the impact of their activities average (6.4%) to high (1.1%). As important as research (?), institutions are in providing support to the growth of SME sector, the results revealed that

80.9% of SMEs interacted with have no idea in this direction, while although the minority have an idea; the range is still from very low to average. (Table 3)

Table 3: Research Institution versus SMEs Development

| Rank | Frequency | Percentage |
|---------------|-----------|------------|
| No experience | 76 | 80.9 |
| Very low | 9 | 9.6 |
| Low | 6 | 6.4 |
| Average | 3 | 3.2 |
| Total | 94 | 100 |

Source: Field survey March 2018

Source of Finance and Institutional Assistance to Financial Provision

The results obtained indicated that 73.4% of enterprises provided their own source of capital either for start-up or working capital, followed by 13.8% finance their businesses through borrowing from friends or relatives and 12.8% finance with banks or local money lenders support. The results also showed that 89% of SME respondents are unable to keep proper records of income and expenditure which affect their access to credit from financial institutions, 62% attribute the poor access to finance due to irregular flow of income and high rate inflation, while 87% indicated that high interest rate from banks affect access loan from the banks. From the data, 60% had applied for financial assistance from the banks but yet to receive their package and 40% had not applied for bank loan because of the bureaucratic nature of the banks as well as the high interest rate. Approximately, SMEs (95.5%) almost of SMEs who have procured bank loan had difficulties in repayment of their loans because of high interest rate charged by the banks and for that matter they are not motivated to contract loans again from the banks, and others (4.5 %) did not seem to have serious problem with the loan because it was used properly.

Impact of Foreign Substitute Goods on SMEs

It was noted that 56.4 % of the SMEs interviewed complained that the large firms in foreign countries dump goods in Ghana, and 10.6 % encounter competition from SMEs within the nation, and 33% face stiff competition within the Accra Metropolitan Assembly (AMA).

Sustainable Strategies Adopted by Nkulenu Industries Limited against the Identified Constraints

The sustainable strategies adopted by Nkulenu Industries Limited to reduce the impact of these identified constraints for SMEs include the following: Firstly, 38% of loans were contracted from their associations as a strategy to reduce interest on loans since the business associations charge low interest rate as compared to other sources of credits, loans from banks (32 %), money lenders (15%) and relatives and friends (15%).

The high wages are effectively managed by reducing the wages of the employees; thus, through the slight reduction of wages (40%) which is productivity dependent, replacement of workers with automated equipment (30%), reliance on family labor (20%) for some key services and finally, reduce recruitment of employees and employ workers with low qualification (10%) to attract less wages per head.

The high inflation is a major issue to SMEs and according to Nkulenu Industries Limited. It depends on bulk purchasing and storage (70.0%), while bulk production and storage for future sales (17.5%), and contract purchasing for future delivery of goods (12.5%) were also mentioned.

The company agreed that effective advertisement (30%) is the best sustainability strategy for competition. Whereas, attractive packaging and labeling of goods (22.5%), good customer relations (20%), promotions and discount sales (17.5%) and the least was change of business (10%).

Again, incompetent employees was one of the challenges identified with the company but regular in-service training (42.5%) conducted for their workers who lack the requisite skills in order to solve or minimize the effects of incompetent employees.

Secondly, it offers motivational packages (30.0%), followed by orientation (17.5%), and offering scholarships to staff for further studies (10.0%).

The company also finds important to maximize its business sustainability level is the elimination of the disloyalty and incredible behaviors of customers. For that reason, transportation package on goods purchased (37.5%); promotions and discount sales (20.0%), good customer relations (12.5%) and selling on credits (30.0%) are what are used to keep customers to purchasing their products.

DISCUSSIONS

Globally, Small and Medium-sized Enterprises (SMEs) are increasingly becoming productive drivers of economic growth and development of most countries worldwide. In the sub-Saharan Africa, the number of SMEs has increased in Ghana. However, the SME sector is faced with many challenges that militate against their sustainable growth and development. Over the years, several interventions by stakeholders to a great extent have improved upon SMEs performance but the most critical aspect is the strategy innovation by SMEs themselves for sustainable growth.

Sustainable enterprise resilience is the “capacity for an enterprise to survive, adapt, and grow in the face of turbulent change,” and at the same time, “to increase shareholder value without increasing material throughput”.

This paper discusses relevant sustainable development approaches being adopted to eliminate or reduce the impact of the challenges identified.

According to the results, it could be said that the degree of youth participation in SMEs activities is very high serving as an indicator of sustainable future for the sectors with the necessary support, and to reduce the rate of the youth unemployment. A study conducted by Osei et al. (1993) on SMEs in Accra revealed that young people owned almost 40 % of the enterprises in Ghana, while their ages were between 26-35 years and others aged between 36-49 years owned 48% Most of these entrepreneurs in Ghana are within the active working group and this is important for the future of the sector (Osei et al., 1993).

Education is considered a powerful tool for successful business with emphasis on the formal Education than informal Education. The study, also revealed that entrepreneurs with less education attainment placed a limit to their capacity in dealing with plans which can lead to business growth, such as keeping proper books of records, prepares business plan, taking advocacy issues to support their businesses and searching for more training programmed to improve their businesses; which is normally undertaken by supporting development organizations like NBSSI.

Furthermore, it is important to emphasize that business registration gives the business the legal identity to enable the business sue or be sued. Secondly, the Registrar General's Department (RGD) as a government agency is mandated to register businesses. Therefore, registration with AMA as a local government authority only permits the businesses to operate within the area but does not allow SMEs to benefit from services such as credit facilities. In addition, financial institutions will not offer loan services to businesses without the RGD registration. Therefore, the Executives of Nkulenu Industries Limited argue that start-up businesses must be supported with free register or subsidized registration charges. The Executives of Nkulenu Industries Limited also suggest that registration offices of the RGD must be at the district levels and if possible online. This will reduce the bureaucratic processes SMEs encounter during registration.

There is research evidence that in Ghana most SMEs are sole proprietorship and the present study confirms 85% of sole proprietorship of SMEs. For example Nkulenu Industries Limited started as a sole proprietorship which can be attributed to numerous factors but currently operating as Limited Liability Company.

The most critical of these factors is lack of trust among entrepreneurs, though most of them have indicated plans to partner with other businesses in the future. This partnership approach will result in more resource mobilization and earn more profit than the single ownership. Traditionally, SMEs have been self-ventured businesses that grow through internal financial support. The need to sort for external financing or acquisition becomes necessary when growth or expansion overtakes its capacity for self-support. SMEs to finance that growth, or in cases where an SME's technology or market segment becomes of special interest to investors (Blackford, 2003). According to Ács and Yeung (1999), small firms can expand their market, through capital acquisition in public markets, or making themselves attractive to larger firms.

This study redefined qualified personnel as people who supposed to manage their business successfully and also make good use of the limited available resources. Majority entrepreneurs of SMEs are illiterates; but some have elementary education, and very few have earned secondary or higher education. At the same time, most of these SMEs are less trained artisans, less skilled tradesmen. This observation is based on the fact that personnel with good qualification would prefer white-collar jobs than venturing into entrepreneurship; however, Majority of educated Entrepreneurs in SMEs lack job after graduating.

Therefore, building the capacity through training of personnel by government support programs such as REP and NBSSI can improve the sustainable performance of SMEs. The National Board for Small Scale Industries (NBSSI) which was established under Act 434 in 1981 as an apex body for the development small-scale industries in Ghana.

The dependence on unskilled labor is a common characteristic of SMEs, where many workers are self-trained artisans with very low professional skills. This situation becomes complicated when family affiliations of the owner often take major decisions in the selection of workers, regardless of their skills background. Again, the availability of low skilled labor is very high, especially in the urban areas due to low wages; while the more skilled workers would prefer working in large firms where they will get higher salaries than the SMEs.

Findings revealed that entrepreneurs with little capital could not sell their products outside their districts. In some cases poor finished products limit them accessing marketing outside home district. This implies that producers must improve their addition process especially packaging to satisfy international standards. According to Levy and Powell (2004), SMEs are

thought to be flexible and innovative organizations with the ability to respond quickly to customers and market demands. Carrie et al. (1994) indicate that the flexibility within the SMEs sector is provided by people rather than technology. It also confirms the idea that SMEs depends more on the skill of labor and entrepreneurs than technology because of resource limitations.

With regards to dumping of goods in Ghana, which leads to low patronage of locally produced goods, the lack of access to appropriate technology as well as inadequate research and development adoption practices make local SMEs unable to compete with foreign products. Nkulenu Industries Limited over the years has created a nice market for its products both local and international, with the concerted effort to provide Ghanaians abroad with the preferred homemade products. The company which has survived many decades of challenges, continue to adopt pragmatic sustainable development strategies by accessing the international market to reduce the local market depressions. The company finds it important to maximize its business sustainability level through the elimination of the disloyalty and incredible behaviors of customers by lunching client friendly programs and offer price packages to assure business commitment.

The Nkulenu Industries Limited is a typical example of indigenous Ghanaian SME that has helped other SMEs to grow through establishing networks to the overcome the problems of access to limited resources, technical-know-how and markets. Networks help to provide advice, information and capital to small firms (Curran et al., 1993). In the context of banking, it may imply that networking with professional, trade or social associations such as Ghana Chambers of Commerce, Association of Ghana Industries, Clubs and Societies may also facilitate access to bank loans. Through the networking, entrepreneurs may develop various skills and knowledge. The application of this idea in the context of banking may imply that, having links with a professional, trade or social associations such as Ghana Chambers of Commerce, Association of Ghana Industries, Clubs and Societies may also facilitate access to bank loans. Furthermore, some associations like Ghana Chamber of Commerce conduct seminars, workshops and industry visits to develop various skills and knowledge of the members. Sometimes these workshops are conducted to train members on preparing project proposals for banks and managing finances in the business. Another aspect is that, on some occasions, one prominent and established member in an association may introduce another member to his or local bank managers and loan officers, and that referral may be used as a best screening method for the bank loan officers to get some idea of the character of the borrower. While, the members of these associations may have also given information on various credit schemes available in the banks, etc. There are also instances that one members act as a guarantor for another member at the time of obtaining a loan from a bank, and increase the probability of attracting investment loan by 14.8 % (Talavera et al., 2012). Bank's lack of long-term resources, information deficiency between entrepreneurs and bankers, could affect their assessment of credit facilities, but networks are more likely to enhance access to bank credit compared to those who do not have such networks (Lefilleur, 2009).

According to Baas and Schrooten (2005), financial auditing statements play a major role as reliable information, if a long term relationship between clients and bank exist. Financial audit statements improve the borrower's credibility and therefore reduce risk for lenders. Moreover, SMEs that keep records and present certain types of information improve their access to bank finance (Tagoe et al., 2008). SMEs must be encouraged through training and incentive to keep proper records to be able to provide the minimum information on their activities (Kauffmann, 2005).

CONCLUSIONS

The challenges of SMEs have been a major limitation to fulfilling the expected goal as a backbone of any economy. This paper investigated and discussed the challenges of the SMEs sector in Ghana and made the case for development sustainability by exploring various strategies being adopted.

RECOMMENDATIONS

From the study, SMEs must be self-sustaining in all aspects of doing business. For SMEs to succeed, rapid innovations using modern technology in all aspect of doing businesses are not left out of the witness box. Also, it's imperative to note that, going for loan in financial institutions to start up a business is risky. This is due to the fact that, the probability of repaying the facility is very slim since the business can easily collapse but rather, it's good to take loan from any source to inject an existing business. Finally, SMEs should seek to integrate into global network of doing business looking beyond local market alone, because of the advent of globalization.

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