

**UNIVERSITY OF GHANA  
BUSINESS SCHOOL**

**HARNESSING THE GROWTH OF SMES IN GHANA-ISSUES AND STRATEGIES.  
A STUDY OF FIRMS IN THE LOCAL FOOD SERVICE INDUSTRY**

**BY**

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## DECLARATION

I hereby declare that, with the exception of references made to other people's work which have been duly recognised, this work is the results of my efforts. I further declare that I am singularly responsible for any shortcomings in the work. This work has not been presented for any degree in this university or elsewhere.

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## ABSTRACT

Small and Medium Size Enterprises (SMEs) play an important role in the economic development of nations. In Ghana SMEs are the key providers of employment and income, and the drivers of innovation and growth in the economy. Observing from statistics available however, it is very disturbing to note that the failure rate of SME businesses is quite high, while surviving SMEs are not able to sufficiently expand to provide the needed employment necessary to stimulate economic growth. Against this background, the study was undertaken to investigate the issues militating against the growth of SMEs particularly in the Local Food and bakery industry in Ghana and to recommend effective strategies to harness the growth of SMEs and their contribution to economic growth. In undertaking the research, questionnaire was administered to 120 owners and operators of local food services (chop bars) and bakeries in and around the following major towns; Accra central, Osu, Circle, Abeka lapaz, Medina, Kaneshie, Odorkor, Awoshie and Achimota, all densely populated suburbs in the Greater Accra Region of Ghana. Random sampling technique was used in selecting the businesses in view of the unavailability of an official register of SMEs involved in chop bar and bakery businesses. From the research, it was found that the industry is female dominated. Female entrepreneurs constitute 72% of the owners and operators of the businesses. Also profitability in the industry is very good, 54% of the business are making profits. However, a number of factors have been identified as hampering the growth and survival of firms in the industry. These include; low managerial skills and training, weak succession and strategic planning, poor book keeping, limited access to finance, high utility charges, harassment from officials from state regulatory agencies and low level of business with government, the highest spender in the economy. Recommendations to improve the industry have been grouped under three main headings; improving the capacities of the SMEs, improving access to finance and improving government support to the SMEs.

## **DEDICATION**

This thesis is dedicated to my lovely children; Grace, Ammish and Benita. To God be the glory.

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## LIST OF ABBREVIATIONS

1. AFCON – African Cup of Nations
2. AGI – Association of Ghana Industries
3. AIP – Austrian Import Program.
4. EDIF – Export Development and Investment Fund
5. EDP – Entrepreneurial Development Programme
6. FDA – Food and Drugs Authority.
7. GDP – Gross Domestic Product
8. GRA – Ghana Revenue Authority.
9. ICS – Industries Credit Scheme.
10. MASLOC – Microfinance and Small Loans Centre
11. MMDAs – Ministries, Municipal and Districts Assemblies
12. NBFi – Non-Bank Financial Institution.
13. NBSSI – National Board for Small Scale Industries
14. OECD – Organisation for Economic Cooperation and Development.
15. PNDCL – Peoples National Defence Council Law.
16. SMEs – Small and Medium-sized Enterprises.
17. TEF – Tony Elumelu Foundation.
18. UK – United Kingdom.
19. UNIDO – United Nations Industrial Development Organisation.
20. USA - United States of America.

## **CHAPTER ONE**

### **1.0 INTRODUCTION**

This chapter introduces the background of the study and provides related international and national perspectives. The latter sub-sections cover statement of the problem, objectives of the study, research questions, motivation and significance of the study.

#### **1.1 Background of the Study**

Small and Medium Size Enterprises (SMEs) play an important role in the economic development of nations. SMEs are recognised for providing employment opportunities and thereby alleviating poverty, empowering communities, providing goods and services, contributing to GDP, and achieving sustainable growth and development. (Abdullahi et al 2015).

In Ghana SMEs are the key providers of employment and income, and the drivers of innovation and growth in the economy. Kwofi (2019) noted that more than 84% of all registered businesses in Ghana fall in the category of SMEs with a similar proportion of the industrial sector also falling into the category of SME. As in other countries, SMEs in Ghana are a very heterogeneous group. They involve in activities ranging from petty traders, grocery store operators, food vendors, bakers, artisans, handicrafts, non-traditional exporters, medium-sized manufacturers and professional services such as software firms, accounting firms and legal firms.

The centre for Entrepreneurship, SME and Local Development of the Organisation for Economic Corporation and Development (OECD) in its report in 2009 indicated that SMEs employ more than half of the labour force in the private sector. In the European Union, they account for over 99 % of all enterprises. Furthermore, 91% of these enterprises are micro-firms with less than 10 workers.

The situation described above in the OECD region, compares favourably with the situation in Ghana. Aryeetey, 2001 noted that SMEs account for about 92% of businesses in Ghana and offers employment to a significant number of the adult population in Ghana.

SMEs therefore have a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation, given their economic weight in all economies both developed and developing. As larger firms downsize and outsource more functions, the weight of SMEs across the globe is increasing rapidly. Consequently, the setting up of owner-managed small businesses as well as the appreciation of the concept of entrepreneurship is fast gaining roots in Ghana.

The development of a strong SME sector in Ghana to support the economic development process in ways that can make the nation take advantage of opportunities emanating from its relationship with other nations will truly be a good call. Experience from Japan, Italy and the Netherlands shows that SMEs are capable of creating productive jobs, which is critical for Ghana to achieve its human capital potential, improve the performance of real sector, strengthen domestic markets and exports, and achieve food security.

In recognising the enormous contribution of SMEs to economic development, governments all over the world as well as donor agencies have in one way or the other focused on the Small and Medium-sized Enterprises with the introduction of initiatives to make SMEs ‘the engine of growth’ and agents of socio-economic transformation. Some of the policy initiatives relate to assisting the SMEs to grow through the provision of soft loans, managerial training and other fiscal incentives through support from international agencies and organizations like World Bank and United Nations Industrial Development Organisation (UNIDO).

Observing from statistics available however, it is very disturbing to note that the contribution of SMEs to Ghana’s Gross Domestic Product (GDP) remains very poor in spite of the support programmes introduced by the government and its development partners to improve the productivity and competitiveness of SMEs. Failure rate of SME businesses is quite high, while surviving SMEs are not able to sufficiently provide the needed employment necessary to stimulate economic growth.

The dissertation investigates the issues debilitating the growth of SMEs particularly in the Local Food and bakery industry in Ghana and propound effective strategies to sustain the growth of SMEs that will enable them live up to expectation.

## 1.2 Statement Of The Problem

The important role played by SMEs in Ghana is gaining recognition by all stakeholders. Their role in terms of production, employment generation, contribution to exports and facilitating equitable distribution of income is very critical. Indeed, Aryeetey, (2001) noted that SMEs contribute nearly 7% to Ghana's GDP and account for 92% of businesses. Kayanula and Quartey, (2000) also pointed out that the activities of SMEs improve the efficiency of domestic markets and make productive use of scarce resources, which leads to long-term economic growth. Furthermore, Cook and Nixson, (2000) observed that the growth of SMEs is regarded as the catalyst for achieving social and economic objectives, alongside female employment, poverty alleviation particularly in rural Africa. In spite of the role and advantages that SMEs have over larger enterprises a number of SMEs in Ghana are failing. The Ministry of Business Development at the launch of the second edition of the Ghana Business Development Review by the University of Ghana Business School (UGBS) in Accra in June 2018 stated that only 15% of these businesses survive three to five years due to several factors thus making it difficult for SMEs to accelerate the pace of Ghana's development and produce a Ghana beyond aid. Factors such as difficulty in accessing finance, inadequate electricity supply, poor business environment and investment climate as well as poor managerial skills have been identified to be obstacles to the growth and expansion of SMEs. The important issue highlighted by these revelations is how best can we harness the growth of SMEs in Ghana so that they can expand and employ more people to stimulate economic growth and reduce the poverty level? This will require the deployment of key survival strategies which are vital to SME's growth and sustained development.

### **1.3 Research Objectives**

The specific objectives of the dissertation are as follows;

1. To ascertain at first hand, the state of SMEs businesses in the local food service industry.
2. To access the factors that hamper the growth of the SMEs.
3. To design effective growth strategies to ensure the long term survival of SMEs.

### **1.4 Research Questions**

The main questions which the dissertation will answer are as follows:

1. Why are SMEs in Ghana failing?
2. What are the real challenges militating against SMEs growth and development?
3. What effective strategies can be designed and deployed to ensure growth?
4. How can Ghana leverage on the growth of SMEs to accelerate the pace of its development?

### **1.5 Motivation Of The Study**

Small and Medium-Sized Enterprises (SMEs) have been recognised as drivers of economic growth all over the world. In Ghana SMEs provide employment to a large section of the population and assist in reducing poverty. Statistics from the Registrar General's Department indicates that 92% of businesses registered are Small and Medium Enterprises.



Incidentally, only 15% of these enterprises survive three to five years. This phenomenon makes it difficult for SMEs to provide the needed push required to accelerate the nation's development. At the launch of the second edition of the Ghana Business Development Review by the UGBS in Accra, it was lamented that for Ghana to go beyond aid, this alarming rate of business failure must be reversed.

My motivation for this study is to find out how SMEs in Ghana can remain viable over time and how the country can harness the growth of these businesses to accelerate the pace of its development.

### **1.6 Significance Of The Study**

There has been a lot of studies carried out on Small and Medium Sized firms in Ghana, but so far very little research has been conducted on how to harness the growth of SMEs to propel economic growth and development. This study therefore is a bold attempt to find out how Ghana can leverage on the growth of SMEs to accelerate the pace of its development to achieve its aspiration of Ghana beyond aid.

The study serves as a useful hand book for other researchers who will be researching into the growth and expansion of the Food and bakery services in Ghana.

Furthermore, the study will help entrepreneurs in the local food and bakery industry and other SMEs in adopting effective growth strategies to serve in today's competitive business environment.

### **1.7 Scope and Limitation of the Study**

In view of the large number of SMEs in Ghana, the researcher wished to include as many firms across the country in the study. However, that was not possible because of the limited budget for this study as well as time constraints. For this reason only 120 SMEs operating in the Local food and bakery industry within Accra metropolitan Assembly (AMA) were engaged in the study.

Consequently, certain generalisation made in the study might not be very accurate. Nevertheless, intense efforts was made to obtain sufficient and relevant information to produce representative results.

### **1.8 Organisation of the Study**

The study is organised into five main chapters;

Chapter one comprises the background of the study, statement of problem, objectives, research questions, scope of the study, limitations of the study, and the significance of the study and the organization of the study.

Chapter two is devoted to the theoretical and literature survey on SMEs which has received some level of attention over the years.

Chapter three defines the research methodology used to accomplish the objectives of the study.

Chapter four provides the findings and analysis of the data obtained from both primary and secondary sources.

Chapter five of the study looked at the recommendations and conclusions.

## **CHAPTER TWO**

### **LITERATURE SURVEY**

#### **2.0 Introduction**

The Literature survey gives a review of some of the theoretical and empirical work on SMEs which has received some level of attention over the years.

#### **2.1 Definition of SMEs**

The definition of SMEs has been very contentious as such SMEs have been defined variously in the literature. According to Abor and Quartey, (2010), the reason why SMEs have varied definition is because SMEs are clothed with the definition problem associated with concepts which have many components. In fact the OCED in its report in 2009 stated that there is no internationally agreed definition of SMEs. This problem of the non-existence of a single uniformly acceptable definition of SMEs, creates the situation where a small business in one industry, might not be the same in another industry due to different levels of capital, revenue and number of employees.

In acknowledging the difficulty in defining SMEs, McMahon et al, (1993) opined that small enterprises are easier to describe than to define in precise terms. They further stated that, what is common and actually sets a small business apart from large enterprise, are some less tangible attributes that are more difficult or even impossible to measure. To this end, they concluded that small firms are best identified by their inherent characteristics.

However, a number of scholars including Fisher and Reuber (2000), Kayanula and Quartey (2000) and Weston and Copeland (1998) have attempted to define SMEs in terms of their legal status, method of production, asset base, labour employed and turnover.

In Ghana, the National Board for Small-scale Industries (NBSSI) provided an industry definition of SME to be “Small business is any business that employs up to 29 people”.

The Bolton Committee (1971) report on Small firms, first formulated an ‘economic’ and ‘statistical’ definition of small enterprises. The economic definition states that, a firm is termed as small if it meets the following three criteria:

- i. It has a relatively small share of their market place;
- ii. It is managed by owners or part owners in a personalised way, and not through the medium of a formalised management structure;
- iii. It is independent, in the sense of not forming part of a large enterprise.

Under the statistical definition, the committee proposed the following criteria to be used in three main areas.

- i. Quantifying the size of the small firm sector and its contribution to GDP, employment, exports, and so on;
- ii. Comparing the extent to which the small firm sector’s economic contribution has changed over time;
- iii. Applying the statistical definition in a cross country comparison of the small firms’ economic contribution.

The Bolton Committee therefore employed different definitions of small firm to different sectors as follows;

- Manufacturing Sector - 200 employees or less
- Construction Sector - 25 employees or less
- Mining & Quarrying - 25 employees or less
- Retailing Sector - Turnover of 50,000 pounds or less
- Miscellaneous - Turnover of 50,000 pounds or less
- Services Sector - Turnover of 50,000 pounds or less
- Motor Trades Sector - Turnover of 100,000 pounds or less
- Wholesale Trades Sector - Turnover of 200,000 pounds or less
- Road Transport Sector - 5 vehicles or less
- Catering Sector - All excluding multiples and Brewery-managed houses.

The Bolton Committee's definitions have however, received a number of criticisms in the Literature. For instance Kayanula and Quartey (2000) pointed out that the economic definition which states that a small business is managed by its owners or part owners in a personalised way, and not through the medium of a formal management structure, is incompatible with its statistical definition of small manufacturing firms which could have up to 200 employees. It will be difficult for a firm employing 200 employees to be managed by owners. The accepted management theory (agency theory) is that as firm size increases, owners no longer make principal decisions but entrust the management of the firm to professional management teams.

Quartey, (2001) stated that definitions that employ measures of size (number of employees, turnover, profitability, net worth etc.) when applied to one sector could lead to all firms being described as small, while the same definition when applied to a different sector would lead to different results.

Nkonoki, (2010) whilst underscoring that the Bolton Committee's definition laid out foundations on how SMEs should be defined, criticised the Bolton Committee's definitions as favouring the western context to a large extent with little regard to the situation in other cultures.

This means a clear definition that can be applied across all industries and cultures is needed to clear the controversy that surrounds the definition of SMEs.

### **2.1.1 Operational Definition of SMEs**

Notwithstanding the varied definitions of SMEs, this dissertation would define SMEs as small, owner-managed businesses that employs not more than fifty employees.

This definition is concise and addresses the weakness in the definition of SMEs which relates the number of employees to managerial approach.

The researcher therefore subscribe to view that there should be a universal definition of SMEs to make it easy for data compilation and performance comparison of SMEs across the world.

## **2.2 Structural Features of SMEs**

SMEs have structural features that distinguish them from large-scale enterprises (LSE).

The major feature ascribe to SMEs is flexibility. According to Story and Cressy (1996)

SMEs are more flexible than Large-scale Enterprises. As a result, they are able to bring about innovation in their product and service delivery. The flexible nature of SMEs makes it easy for them to adapt to changes in the market space.

Onugu, (2005) noted that SMEs usually operate on a flat management structure and are associated with small management teams. This makes decision making easy and quicker as there is likely to be fewer dissenting views in the decision making process. This is not the same with large firms that have tall hierarchical structure with many people involved in decision taking. Abdullahi, et al (2015) also noted that SMEs can be seen as an enterprise that is relatively small, with the owner in control of all affairs of the enterprise. This makes him/her take faster actions. Also, the owner is known by all the employees and can change the line of business at any time unlike Large-scale enterprise.

Another structural feature of SMEs in Ghana noted by Osei et al (1993); Kayanula and Quartey, (2000) is that, SMEs are classified as rural and urban. The rural enterprises are individual artisans, groups of people in pottery, basket weaving and dress making. The rest include bakery, blacksmithing, leather works, ceramics and textiles. The urban enterprises are either organised or unorganised. The organised ones have registered office space and paid employees. The unorganised ones have no paid workers and often operate in open spaces, temporary wooden structures, or at home. They rely on family members or apprentices.

Prempeh, (2015) identified nine (9) features which gives a good picture of SMEs as follow;

- i. SMEs mainly focus on a small range of products or services and mainly sell their product or services on the local domestic market.
- ii. In small firms, the owner is the only person in a managerial position, thus, there is no organized structural management or board of directors.

- iii. They operate their business on trust, rather than on contracts and systems.
- iv. In small firms the pressures of day-to-day management and resource constraints cause their vision and outlook to be bounded by the horizons, skills and experience of the owner or founder.
- v. Most SMEs like to operate independently of other businesses and institutions or work on their own, i.e. they prefer more self-help rather than seeking advices.
- vi. SMEs face fierce competition due to their small range of products and small market share; therefore they tend to be simply price takers,
- vii. Most SMEs also do not have any preparations for the future plans.
- viii. Majority of SMEs are not publicly owned companies; they are either partnership firms or privately owned companies, i.e. most of them are not quoted on a stock exchange.
- ix. Small firms have limited resources in terms of assets, manpower, as well as finance.

### **2.3 Significance of SMEs to Economic Development**

The significance of SMEs to the economic development of nations; advanced and developing has been greatly emphasised in the literature. Bartel and Martin, (1990) confirmed that, one of the major reasons why SMEs have been receiving increased attention from scholars and the public press is the growing recognition of the substantial economic and social contributions entrepreneurship brings. The economic contributions include economic growth, maintaining a favourable balance of payments and balance of trade and employment creation. Socially, entrepreneurship results in poverty eradication and improved standards of living. SMEs are therefore, an essential remedy for improving the standards of living in a society and the stability of a country.



Schaper, 2002 stated that countries that have witnessed economic breakthroughs in the last two decades have shown that the development of Small and Medium Sized enterprises has been the main force that propelled them to achieve economic growth and development. In emphasizing the significance of SMEs, Schell, 1996 opined that in developed countries such as USA where big countries are dominant, SMEs still play enormous role in the country's economy.

The World Bank (2007) report confirmed that SMEs contribution to employment generation was 39% in South Africa and China's SME sector contributed 78% to its total employment. The report presented the following table indicating SME participation and contribution to the economies of 11 selected countries across the world.

**Figure 2.1-SME Participation and Contribution to the Economy (Selected Countries)**

Country Name	Structure of the MSME S sector (% of all MSMEs)			SME Participation in the Economy		
	Micro	Small	Medium	SMEs	SMEs per 1,000 people	SME employment (% total)
Brazil	93.9	5.6	0.5	4 903 268	27.4	67.0
China	n/a	n/a	n/a	8 000 000	6.3	78.0
Egypt	92.7	6.1	0.9	1 649 794	26.8	73.5
United	95.4	3.9	0.7	4 415 260	73.8	39.6
<b>Ghana</b>	<b>55.3</b>	<b>42.0</b>	<b>2.7</b>	<b>25 679</b>	<b>1.2</b>	<b>66.0</b>
India	94.0	3.3		295 098	0.3	66.9
Mexico				2 891 300	27.9	71.9
Malawi	91.3	8.5	0.2	747 396	72.5	38.0
Russian				6 891 300	48.8	50.5
United States	78.8	19.7	1.5	5 868 737	20.0	50.9
South Africa	92.0	7.0	1.0	900 683	22.0	39.0

**Source: World Bank (2007)**

From the findings in the World Bank (2007) SME per 1,000 people in Ghana is 1.2 and in term of employment, the SME sector contributes 66% of total employment in the country.

Nkonoki, (2010) stated that SMEs tend to be labour intensive as they create employment at relatively low level of investment per job created. With the raising level of unemployment across most African countries due poor economic management in the face of abundant natural resources, more people now opt for entrepreneurship which falls in the SME sector.

In Ghana, Kwofi (2019) noted that the SME sector is essential for several reasons including creating jobs, supporting agricultural and primary commodities sub-sector and also generating foreign exchange for the economy. Indeed, data available from the Registrar General's Department of Ghana indicated that 90% of companies registered are micro, small and medium-sized enterprises. These enterprises have been recognised as catalyst for economic growth of the country as they are a major source of income and employment. This means that when a good chunk of the SMEs build up competitiveness and capacity to play in the global or regional market place the contribution of SMEs to economic development will soar. This will then lead to increase production, income distribution, employment and the closer integration of women and people in the rural areas.

Taiwo, et al. (2016) noted that in Nigeria, the contribution of SMEs has been recognised as the main sustenance of the economy because of their capacity in enhancing the economic output and human welfare. Odeyemi. (2003) presented an empirical report which show that in Nigeria, about 70% of the industrial employment is held by SMEs and more than 50% of the Gross Domestic Product (GDP) is SMEs generated. This clearly shows that SMEs contributes to socio-economic development and poverty reduction.

Abor and Quartey, (2010) stating their views on the contribution of SMEs to economic development for the economic perspective emphasised that SMEs are not just supplier of goods and services but are also consumers. In their activities, they demand industrial and consumer goods which stimulates the economic activities of their suppliers which may

be larger firms. They are able to play this role effectively if their position themselves with adequate purchasing power.

In the OECD region, the Observer (2000) stated that SMEs play a major role in economic growth in the OECD area, providing the source for new jobs. The Observer (2000) noted that over 95% of OECD enterprises are SMEs, which account for 60%-70% of employment in most countries. Also, productivity growth and consequently economic growth is strongly influenced by the competition inherent in the birth and death, entry and exist of smaller firms.

The World Bank, (2012) review on small business activities establishes the commitment of the World Bank to the development of the SMEs sector as a core element in its strategy to foster economic growth, employment and poverty alleviation. SMEs therefore, constitute the driving force of industrial growth and development due to their great potential in ensuring diversification, expansion of industrial production and the attainment of the basic objectives of development.

SMEs are also noted to be more effective in the utilization of local resources and affordable technology, to a large extent they add value to the resources. Also SMEs tend to facilitate the distribution of economic activities within an economy thus promoting equitable distribution of resources. Nkonoki, (2010) found out that the technology applied by SMEs is easier to acquire, transfer and adopt. Also SMEs are better positioned to satisfy limited demands brought about by localised and small markets due to their low fixed and overhead costs. In addition through business linkages, partnerships and

subcontracting relationship, SMEs have great potential to complement large industries requirement. This is in terms of supplements of raw materials and other factors of production like labour and entrepreneurial skills.

#### **2.4 Factors affecting the Growth and Development of SMEs.**

There are a number of factors that affect the growth and development of the SMEs identified in the literature. Kayanula and Quartey, (2000) highlighted limited access to finance, poor managerial capacity and difficulty in accessing raw materials as the main factors affecting the growth of SMEs.

Other, researchers such as Schmitz, (1982); Liedholm and Mead, (1987); Steel and Webter, (1990) deduced that the factors hindering the growth of SMEs are due to the following; difficulty in absorbing large fixed cost, absence of economies of scale and scope in key factors of production, and higher unit costs of providing services to smaller firms.

Schiffer and Weder, (2001) in their work on constraints to SMEs development, opined that in the broader context, there are size-based policy biases against SMEs, and more so against smaller firms in the microeconomic environment. These biases cover all areas: legal and regulatory frameworks, government issues, such as bureaucracy and corruption, access to finance and property rights. They argued that the existence of such biases point out either market or government failure and is closely related to the capacity of the stakeholders involved. While markets may correct these failures, others may require selective interventions to correct them.

Aryeetey et al., (1994) found that most SMEs particularly those in developing economies have difficulty in expanding to international markets due to factors such as limited international marketing experience, poor quality control and product standardisation, and little access to international partners or alliances.

Mohammed and Nzelobe, (2014) noted that in spite of the fact that SMEs enjoy the advantage of being small and faster at decision taking which makes them respond quickly to market situations, SMEs face the problem of inadequate accountability, weak record-keeping and difficulty in accessing funds. Akugri et al. (2015) took a regional perspective of challenges facing SMEs in Africa and stated that SMEs are weak in Africa due to small local markets, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure and inadequate financial systems.

Abor and Quartey, (2010) in assessing the general constraints to SME development in Ghana and South Africa identified poor managerial skill as posing significant constraints on SME development. They added that inadequate support services or when they are available are usually acquired at a relatively higher cost which most often hampers efforts by SMEs to improve their management. One critical issue identified in this area is that consulting firms seem not to possess the ability to provide training to SMEs at an affordable cost.

Davenport, (1967) attributed the main challenge of SMEs to lack of access to finance and indicated that interest rates, collateral requirements and cumbersome documentation

demanded by formal financial institutions deter many entrepreneurs from easily assessing funds from commercial banks. Thus hindering their contribution to economic growth. Along the line of inadequate financing. Ekenyong, (1997) identified inadequate capital and inaccessible credit facilities as key challenges facing SMEs indicating that, long-term development institutional credit was known not to be available to SMEs due to the notion that SMEs are high risk businesses by financial institutions.

Ogujiuba et al., (2004) also identified unfavourable macroeconomic environment as a major constraints which often encourage financial institutions to be risk-averse in funding small and medium scale businesses. The general consensus by proponents of SMEs is that the banking system is not providing enough support to new economic initiatives and in particular to the expansion of SMEs. This must change if SMEs are to play their important role of stimulating growth, generating employment and contributing to poverty alleviation.

## **2.5 Effort by Governments and Donor Agencies to Promote SME Development**

Recognising the crucial role SMEs play in the socio-economic development of nations. Government and Donor Agencies have initiated policies and support programmes to empower SMEs to grow and expand their product and service delivery. The United Nations Industrial Development Organisation (UNIDO) in its 1990 report indicated that some of the efforts governments is deploying to supporting SMEs focuses on assisting the businesses to grow through soft loans and other physical incentives through support from international agencies such as the World Bank.

According to Beck, et al. (2003), the World Bank approved more than \$10 billion in support for SME development programs on grounds that it has the ability to promote economic growth and poverty alleviation.

At the continental level, The Tony Elumelu Foundation (TEF); a leading African philanthropic organisation that is committed to entrepreneurship across the African continent in its press release in 2016 indicated that it has committed a colossal amount of \$100 million to identify, train and fund 10,000 African entrepreneurs over a 10-year period with the goal of realising \$10 billion in revenue and creating a million jobs.

Snodgrass and Winkler (2004) noted that, in order to generate enough income to help minimise the incidence of high level of poverty in most developing economies, government and international funding institutions have suggested to governments in developing economies to make greater efforts at promoting private sector development with SMEs at the forefront.

In Nigeria, Hassan (2003) mention a number of schemes initiated by the government which has contributed to the growth and development of SMEs. An example of such government initiated schemes is the Industries Credit Scheme (ICS) which was introduced in 1971 as a revolving grant by the federal and state government. The essence of this scheme is to assist in meeting the credit needs of SMEs on a relatively liberal conditions than in private lending institutions.



In Ghana, Kayanula and Quartey, (2000) deduced various schemes, policies and programmes initiated by the government to support SMEs to enable them attain their full potential. Some of these initiatives include; the establishment of a Mutual Credit Guarantee Scheme for entrepreneurs who have inadequate or no collateral to access finance from Banks, the initiation of the Rural Finance Project to provide long-term credit to small scale farmers and artisans, the establishment of the Export Development and Investment Fund (EDIF) aimed at supporting export as well as rehabilitating and retooling local business engaged in the following: Textiles/Garments; Wood and Wood Processing; Food and Food Processing and Packaging.

Furthermore, the government of Ghana established the National Board for Small Scale Industries (NBSSI) to address the needs of SMEs. The NBSSI subsequently established the Entrepreneurial Development Programme (EDP) to train and assist persons with entrepreneurial abilities into self-employment.

## **2.6 Financing Small and Medium Sized Enterprises (SMEs)**

Access to finance is critical for the growth of small and medium-size enterprises (SMEs). It allows entrepreneurs to innovate, improve efficiency, expand to new markets, and provide lot of jobs. The Observer (2000) noted that funding gaps for smaller firms are a major impediments to growth. The wide difference in the profitability, survival and growth of SMEs compared to larger enterprises makes financing of SMEs a major challenge to surmount. This means that the choice of funding for a small business will vary from that of larger enterprises.

Stokes and Wilson, (2015) posited that there are three core factors which affect the potential source of funding and the level of funding required by a small business. These factors have been outlined as follows;

- a. The type of funding to access by an SME will be contingent on the particular form of business that the SMEs has adopted. For instance, a sole proprietorship cannot access external equity, since without a separately existing company there is no means of owning shares in that enterprise.
- b. The second factor is the enterprise's stage of development. The type of funding required to finance new business concepts, which may or may not be proven will be offered under different terms and conditions from for example, venture capital required to fund some aspects of early business growth. The key determining factor in this respect is the relationship between risk and reward.
- c. The third factor is the potential source of funding and the level required by the enterprise will depend upon the nature of assets for which finance is required.

### **2.6.1 Funding Sources Available To SMEs**

According to Myers and Majluf, (1984) the choice as to what type of finance is most appropriate for different kinds of small business has been shown to follow a pecking order theory of finance hierarchy. The pecking order theory was developed by Myers, (1984) who suggested that the capital structure decisions of a firm are a function of the firm's age. What this theory points to is that, internal sources of funding are first chosen before external sources of funding. In line with the pecking order theory, Abdulsalah and Worthington, (2013) explained that when seeking funds, a firm prefers internal equity to external debt, short-term debt to long term debt, and external debt to external equity.

Therefore, Casser and Holmes, (2003) noted that the order of preference for the financing sources for a firm should follow;

- i. internal equity,
- ii. issuing debt, and then,
- iii. Issuing equity.

Works done by Gregory et.al (2005) supported the pecking order theory where they argued that older firms should be less reliant on external financing sources than younger firms contrary to the proposition of the lifecycle model of firms.

According to different standards, financing small business enterprises can be divided into many kinds. Jiang et al. (2014) divided financing sources into two broad kinds, namely, Internal and external financing. They also posited that compared to internal financing, external financing can be a means of raising funds quickly and timeously, but at a high cost. Harding, (2002) also observed that start-up capital for SMEs in the United Kingdom (UK) comes from internal sources such as the entrepreneur's personal investments, family and friends with the remainder coming from external sources.

Lauren, (1998) also stated that SMEs rely on personal savings, savings or group credit society, money lender or credit organisations, loans or gifts from friends or family, bank or promotional agency loans, co-investor or parent company, profits from another business, supplier credit and other sources.

Following from the above the specific sources of financing available for SMEs discussed in the literature include:

## **1. Internal Equity Financing**

Abdulsaleh and Worthington, (2013) defined internal equity as funds obtained from the current owner-manages(s), family, and friends or from the retained earnings within the firm. Reynolds, (2011) also revealed other sources of internal financing, which is made up of personal savings, personal and family loans from friends, employers, colleagues, credit card loans, among others. Jiang et al. (2014) added that internal financing means enterprises get capital from their own, which is an essential part for their survival and development. Supporting the pecking order theory Jiang et al. (2014) argued that generally, internal financing is the first choice funding available to a small business and it thus represents an important source capital to obtain. Emphasising the importance of internal financing to SMEs, Ayyagari et al. (2010) found out in their studies that internal sources of finance has the potential; to facilitate the growth of SMEs better than the external sources of finance as internal equity is less expensive and easy to get. There is also a consensus in the literature that the funding gap confronting SMEs could be overcome by accessing internal finance and may have significant influence on their performance.

Stokes and Wilson, (2015) however, warned that although internal financing presents a great source of finance for many people starting new enterprises, great care should be taken to highlight the risk involved which may be an investor relationship with his friends and family going sour if the things do not turn out well.

## **2. External Equity Financing**

External Equity is that capital acquired from external channels other than the existing owner(s), partners and their relatives. (Abdulsaleh and Worthington, 2013). In a broad-

spectrum, Ou and Haynes. (2006) defined equity capital as capital invested in the firm without a specific repayment date, where the supplier of the equity capital is effectively investing in the business. The investor therefore takes up an ownership stake in the business. This makes equity financing a preferred choice for financing new and young SMEs than debt financing. Ou and Haynes. (2006) noted that equity financing for SMEs are preferable because new and young SMEs typically undergo cash shortages and are generally not able to provide the needed collateral usually required by debt financiers. Also, external equity financing helps enhance the credibility of SMEs as it gives an indication that the firm has approval of other external investors.

Stressing the merits of external equity financing for SMEs, Luukkonen et al. (2013) stated that external equity offers entrepreneurs long-term financing option to execute their business growth strategies with little cash outflow in the form of dividend payable to external equity financiers. Abdulsaleh and Worthington, (2013) also stated that some entrepreneurs choose external equity financing in order to share the business risk with less risk-averse investors.

In spite of the merits of external equity financing stated above, it has some downsides identified in the literature. Ampenberger et al. (2013) contends that, the moment an entrepreneur issues equity shares to other investors to finance the business, it dilutes the entrepreneur's ownership stake in the business which may lead to loss of ownership and control.

Regarding external equity financing for SMEs, two main sources has been identified in the literature to be the channel through which SMEs can access external equity. These consist of Business Angel investment and Venture capital investment.

**a. Business Angel Investment.**

Equity capital offered by Angel Investors are a crucial source of financing for many SMEs, especially new and nascent businesses. Madill, et al. (2005) defined Angels as highly-selective wealthy individual with long business experience who invest directly in high growth SMEs with which they have had no previous relationship. This form of investment is usually based on equity contract, typically ordinary shares. Stokes and Wilson, (2015) argued that in most cases, the desire of Angels to invest is fuelled by their particular knowledge and interest in the market or industry, rather than purely for financial interest. Madill, et al. (2005) noted that though Angels by definition are individual, they sometimes coordinate their investment in small investment groups.

Harrison and Mason, (1992) pointed out three features that make business angel investment an appropriate option for SMEs:

- i. Angels are more active in the early stages of enterprises (seed and start-up), closing the so-called 'equity gap' by forming a 'bridge' between internal financing sources and outside investors.
- ii. Angel investors have lower rate of rejection and provide a more patient form of capital with longer exit horizons, making angel investors more obliging to the need of SME owner-managers.
- iii. Angel investors unlike venture capitalist prefer to invest in their local economies where the majority of SMEs operate.

Business Angel investment as a source of financing has two main limitations identified by Wall, (2007) as follows;

- i. Few angels are prepared to inject additional money into a firm to enable it grow and be a real competitor in its market.

- ii. Most angel investors do not have neither the skill nor the interest in investing in a firm after it has access to other external sources of finance, including public equity markets.

#### **b. Venture Capital**

According to Stokes and Wilson, (2015) venture capital is a specific component of the private equity industry and refers to when funds are used to invest in firms in the seed (concept), start-up (within three years of the firm's establishment) and early stages of development. Potter and Porto, (2007) also defined venture capital as that form of financing in which funds are raised from investors and deployed by investing in high-risk informationally opaque firms which for most part are young or start-up firms. The early stages of business development possess significant risk to the financier and as venture capitalist provide risk finance, their rates of return are usually high, ranging from 25%-60% depending on the risk involved.

Stokes and Wilson, (2015) posited that the nature of involvement of venture capitalist in a particular venture varies but usually consist of a combination of three types of capital: equity capital, preference shares and loans. The level of share ownership taken up by a venture capitalist in a business is normally less than 50% with a typical stake between 30% to 40% and seat on the board of directors of the company. Venture capitalist also provide staged infusion of additional risk capital as the enterprise evolves.

Further, Gorman and Sahlman, (1989) noted that venture capitalist decide the timing and type of investment in addition to their role in monitoring, screening and contracting. These functions makes the venture capitalist a virtual participant in strategic planning and decision making in a firm. Venture capitalists also seek exit routes, including a public listing on the stock exchange market.

### **3. Debt Financing**

The third source of funding available to SMEs identified in the literature is debt financing. Dube, (2013) noted that debt finance is raised by borrowing from financial institutions. This therefore entails the process of raising finance in the form of a secured or unsecured loan for working capital or capital expenditures. Firms typically use this type of financing to maintain ownership percentages and lower their taxes. Debt financing for SMEs highlighted in the literature include; funding from banks, non-bank financial institutions, trade credits and government support schemes.

#### **a. Bank Financing**

Commercial Banking institutions provide funding to SMEs in the form of loans and overdraft. These loans when provided timeously, assist SMEs to finance their working capital and expansion needs. However, there is a general consensus in the literature that commercial Banks find it difficult to lend money to SMEs compared to larger enterprises as they consider the former as high credit risk entities. Sacerdoti, (2005) noted that commercial and hitherto merchant banks which retained liquidity level in excess of regulation have shown reluctance in financing SMEs.



A study conducted by the African Center for Economic Transformation (ACET, 2016) and the World Bank Ghana office in 2016 revealed that in Zambia, while 95% of SMEs have bank accounts, only 16% had loans or lines of credit (6% of small and 25% of medium enterprises). In addition, virtually all loans (93%) require collateral, which on average amounted to 146% of the loan amount. The study further revealed that Commercial banks largely avoid lending to SMEs who they see as difficult to serve with current business model. The study cited issues relating to the availability of credit information, the registration and enforcement of collateral, the verification of documents and identification, and low levels of business skills and training as major constraints to lending to SMEs.

Abraham and Schmukler, (2017) concur with the view that several roadblocks stand in the way of SME financing. They argue that SMEs are typically more “opaque” than large enterprises because they have less publicly available information. As a result, banks have more difficulties in assessing the creditworthiness of SMEs, which discourages lending to them. Opacity also, require banks to rely more on relationship lending when dealing with SMEs. This means that lending will depend more on “soft information” gathered by loan officers through personalised contact. Relationship lending can discourage loans by large and foreign banks, which maintain more impersonal relations with clients.

In spite of the reasons advanced by commercial banks in limiting credit extension to SMEs, it has established that servicing SMEs is a profitable line of business for Commercial banks as they generate a large proportion of revenue from non-credit related

activities for example from fees and low interest rate deposit. (Current Account and Savings Account-CASA deposits).

#### **b. Non-Bank Institution Financing**

Non-Bank Institution financing is one of the sources through which SMEs raise funding in both developing and developed nations. Aryeetey, (1998) found out that in Zimbabwe, loans granted by non-bank financial institutions account for nearly 30% of total debt, and ranked second in order of importance by domestic SMEs. Goff and Nasiripour, (2012) quoted a study conducted in 2012 by the Federation of Small Businesses in the United States of America (U.S.A) which revealed that 15,000 financial institutions in the USA competed to lend to SMEs, of which half were non-bank lenders in the form of credit unions.

In Ghana, Quaye and Sarbah (2014) posits that the activities of non-bank financial institutions have gained prominence since the passing of the Non-Bank Financial Institution (NBFI) Law 1993 (PNDCL 328). The Law provided the regulatory framework for Savings and Loans Companies, Credit Unions, Pensions Funds, Finance houses, Investment Trust Companies, Insurance companies and leasing companies to provide funding to SMEs. Regarding the contribution of Non-Bank Financial Institutions (NBFI) to bridging the financing gap of SMEs, Atieno (2012) conducted a research into role of NBFIs in facilitating the access to credit by SMEs in rural Kenya and found out that NBFIs have taken a dominant position as funding providers to SMEs due to the fact that their procedure for loan assessment is shorter and less cumbersome than those of commercial banks. Also, he averred that funding by Non-Bank financing institutions are

preferred by SMEs because they offer long term loans compared with loans from Commercial Bank that are usually short term.

### **c. Trade Credits**

Trade credit presents one of the important sources that SMEs can obtain financing, especially working capital. Garcia-Teruel and Martinez-Solano, (2010) described trade credit as a delay in the payment for goods or services after they have been delivered or provided as a result of an agreement between the supplier and the firm. Therefore, for the firm this is a source of financing that will appear in the Statement of Financial Position under current liabilities as payables, whereas for the supplier it is an investment in accounts receivable. The advantages of trade credits critical source of financing for SMEs has been highlighted in the literature. Ellihäusen and Wolken, (1999) stated that trade credit comes in handy to SMEs when alternative sources of obtaining finance are unavailable or more expensive. Also, Fatoki and Odeyemi, (2010) averred that trade credit financing is preferred by new and young SMEs when the risk of default is high during the early stages of development. Furthermore, Cook, (1999) posits that by using trade credit SMEs can demonstrate their creditworthiness to banks, as banks will be willing to lend to SMEs on the basis of the signal that the firm has trade credit. Trade credit financing has some disadvantages highlighted in the literature. Wilson and Summers, (2002) for instance argue that trade credit can be a costly financing source for SMEs if the buyer delays the payment beyond the specified date in the agreement.

#### **d. Government Support Schemes**

Governments in virtually every economy in the world have recognised the critical role played by SMEs. SMEs apart from creating millions of jobs also perform other exceedingly important functions such as supporting innovation, helping with diversification and many more. However, access to finance has been identified as a major constraints hampering their efforts to play a fuller role in supporting economic growth, jobs and development. This is partly because banks perceive SMEs as risky businesses (Ekenyong, 1997). To address the financial challenges of SMEs, governments and policy makers have initiated and implemented several programs, schemes and policies to ensure SMEs have easier access to financing.

Mensah, (2014) defined government support schemes, as schemes introduced by government, either alone, or with the support of donor agencies to increase the flow of financing to SMEs.

OECD, (2000) cited example of government credit support scheme in two developed countries namely; Canada and United Kingdom (UK). In Canada the government introduced the Small Business Financing Programme. Under this programme, the Government of Canada may guarantee up to 85% of loans less than 250,000 Canadian dollars. During the year 2005/06, this programme enabled SMEs in Canada to attain more than 10,000 loans with total value exceeding 1 billion Canadian dollars.

In the UK also, the government in 1981 instituted the Small Firms Loan Guarantee Scheme with the aim to facilitating access to finance to SMEs by providing guarantees for their loans. Over the period 1998-1999, a total of 45,000 loans extended to SMEs were guaranteed with a value of 189 million pound sterling.

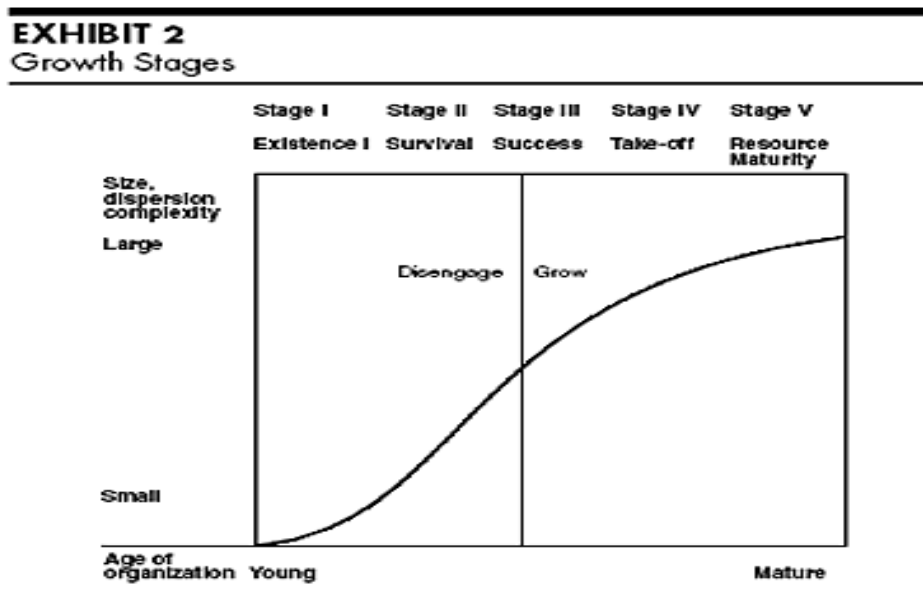
In developing countries, the results of government support programmes to ease access of finance to SMEs have yielded mixed results. For example in Ghana, Mensah, (2014) reported that, under a government of Ghana initiated programme supported by the Austrian Government dubbed “Austrian Import Program (AIP) was launched in 1990. Under the programme, beneficiaries who are mainly SMEs were to use the facility to procure equipment, machinery, raw materials and related services from Austria. The beneficiaries were given six years made up of a one year-year moratorium and five-year repayment period. The outcome of the AIP programme was that, since the loans were disbursed in 1990, the borrowers should have completely liquidated their loans by the end of 1996, but as at December 2001, only 1 out of 20 beneficiaries had fully paid. Another example cited in the literature of government support scheme to SMEs in developing and transition economy is Croatia. Cziraky, et al, (2005) noted that the Croatian government implemented the National SME loan Scheme jointly with eight local commercial banks in 2000. The programme was intended to increase the supply of financing to target SMEs in order to reduce their cost of borrowing. The results of the programme they affirmed was contrary to expectation as the programme suffered from low rate of loan approvals with only 5% and 29% of applicants approved in the first two years of the programme being the year 2000 and 2001 respectively.

Nevertheless, the support of government and donor agencies initiatives to increasing the flow of finance to SMEs to close the financing gap cannot be discounted. However, Mensah, (2014) posited that in order to boost the effectiveness of government support schemes to SMEs, Governments must elaborate and implement policies and strategies for financing SMEs as well as develop and improve financial institutions to better support SME financing.

## 2.7 The Stage Model of SME Growth

According to Mumbo, (2013) SME growth is intertwined in a series of development which the business may pass in an enterprise life-cycle. McMahon, (1998) posited that Organisations are born, grow, and decline, in the context of reawakening, and sometimes disappearing into oblivion. Churchill and Lewis, (1983) noted that Small businesses vary widely in size and capacity for growth as they are characterised by independence of action, differing organisational structures, and varied management styles. They therefore conceptualised five stages of small business growth framework. Each stage is characterised by an index of size, diversity, and complexity and described by five management factors: managerial style, organizational structure, extent of formal systems, major strategic goals, and the owner’s involvement in the business. This five stages has been depicted in the diagram below;

**Figure 2.2: Business Growth Stages**



Source: Churchill and Lewis, (1983) P. 3

Churchill and Lewis, (1983) small business growth model shown in Figure 2.2 above revealed five stages of small business development: Existence, survival, success, take-off and resource maturity. The model averred that there are some common problems that arise at key stages of small business development. This means that knowledge about them will position small business owners to plan ahead and continue to thrive as their business reaches new stages of growth.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter describes the methods used in carrying out the research. It discusses the target population and the techniques employed in collecting the data for the study. It also considers the research design and methods of data analysis.

#### **3.1 Target Population**

The target population of the dissertation are firms in the Local food service industry in Accra. Particularly owners and managers of chop bars/local restaurants and bakery shops. The choice of these firms in this industry was informed by the fact that they account for the highest number of businesses in Accra. Almost every suburb in Accra has chop bars and bakeries.

#### **3.2 Research Design**

The research design adopted for the study is that of a survey of 120 firms in the local food service industry in Accra. The researcher believes that this number is representative enough to draw conclusions that can be generalised.

##### **3.2.1 Sampling Method**

Random sampling techniques was used in selecting the businesses in view of the unavailability of an official register of SMEs involved in the chop bar and bakery business.

Random sampling is a part of the sampling technique in which each sample has an equal



probability of being chosen. A sample chosen randomly is meant to be an unbiased representation of the total population. The firms were selected randomly across the following major towns; Accra central, Osu, Circle, Abeka lapaz, Medina, Kaneshie, Odorkor, Awoshie and Achimota. This towns were chosen because they are among the densely populated suburbs in the Greater Accra Region of Ghana where many local food service outlets (chop bars) and bakeries are located. The sampling method chosen therefore gave a fair representation of chop bars and bakeries in the Accra Metropolis.

### **3.3 Method of Data Collection**

The primary source of data was used for this dissertation. In collecting the data, the researcher made use of structured questionnaire and interviews guide to solicit information from the owners of the enterprises. The questionnaire and interview guide have four main sections comprising of Socio-demographic information of the respondents, Business information, Industry information and Government actions in the industry. In all respondents answered 30 questions.

The questionnaire was designed and administered to respondents who can confidently complete the questionnaire on their own. They were to complete the questionnaire within two days. This was to afford the respondents ample time to complete the questionnaire correctly. The interview schedules were self-administered but the researcher and field assistants assisted illiterate respondents as well as literate respondents who could not afford the time to complete a questionnaire.

Secondary data on the food service industry was also obtained from the internet, magazines and other publications on SMEs businesses.

### **3.4 Method of Data Analysis**

Data from the field was edited and coded appropriately to make meaning. Editing was done to correct errors, check for non-responses, accuracy and correct answers. Coding was done to facilitate data entry and comprehensive analysis. Advanced Microsoft Excel spreadsheet software was employed for the data analysis. Descriptive statistics analysis factors like frequency tables, percentages, pie charts, bar graphs and pictures were used to explain the findings.

## **CHAPTER FOUR**

### **FINDINGS AND ANALYSIS**

#### **4.0 Introduction**

This chapter presents the findings of the research as well as an analysis of the findings. The questionnaire and interview guide was administered to owners and operators of local foods (chop bars) and bakeries in and around the following major towns; Accra central, Osu, Circle, Abeka lapaz, Medina, Kaneshie, Odorkor, Awoshie and Achimota all in the Greater Accra Region of Ghana. The choice of these town was informed by the fact that they are the principal business areas in Accra and therefore have many eating places and bakeries.

The questionnaire was divided into four main sections; namely;

- a. Socio-demographic information
- b. Business Information
- c. Industry Information
- d. Government Action

A total of 135 respondents were contacted for the study of which 120 responded positively and fully participated in the study indicating a respondent success rate of 89%.

#### **4.1 Socio-demographic Information**

In this section the questions were designed to solicit personal information to access the standing and orientation of the business owner or operator

#### 4.1.1 Appraisal of Socio-demographic Information

This section presents the appraisal of the information obtained relating to the socio-demographic information.

##### a. Gender and Age

The respondent were asked to indicate their gender and age. The results are show in the table below:

**Table 4.1 Gender and Age of Respondents**

Age Group	Less than 30 yrs.	31-40 yrs.	41-50 yrs.	Above 50 yrs.	Total
Frequency of Respondents	11	25	56	28	120
Frequency of Males	3	7	16	8	34
Frequency of Females	8	18	40	20	86

Source: Field Data, (2019)

From table 4.1 above majority of the owners and operators of local food firm and bakeries are females. The number of females who operate the business is 86 representing 72% compared to that of the men who were 34 representing only 28%. This indicates that the local food and bakery business is female dominated.

Another observation from the data presented above is that, more people in the age group of 41 years and above constituting 70% are into SME business compared with those who are below 41 years who constitute 30% of the respondents. This may be explained by the fact that most SMEs start-up capital comes from own savings. This means that people who are within the age bracket of 41 years and above can accumulate more savings to start a

business on their own than persons below 41 years who have not lived long enough to accumulate a lot of savings.

**b. Level of Education**

The respondents were asked to indicate their level of education. The responses of the respondents to the question and an appraisal is presented below.

**Table 4.2 Level of Education of the Business Operators**

<b>Level</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Primary</b>	12	10
<b>Secondary/Vocational</b>	26	22
<b>Post-Secondary</b>	20	17
<b>Tertiary</b>	28	23
<b>No Formal Education</b>	34	28
<b>Total</b>	<b>120</b>	<b>100</b>

Source: Field Data, (2019)

From table 4.2 above, only 40% of the owners of the businesses have higher education i.e. Post-secondary and Tertiary. Those who have Primary and secondary/vocational education constitute 22%, with as much as 28% without any formal education. This revelation gives an indication that managerial competence may be low in the industry as many of the operators have low formal education. To this end, training programmes aimed at upgrading the management skills of the businesses owners must take the form of coaching and counselling rather than high-level executive development training programmes.

**c. Duration of Business Operation**

Under this caption, the respondents were asked to indicate how long their firms have been in operation. The response of the operators to the question is presented in table 4.3 below.

**Table 4.3 Duration of the Businesses**

<b>Duration</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Less than 1 year</b>	24	20
<b>2-5 years</b>	52	43
<b>6-9 years</b>	35	29
<b>10 years and above</b>	9	8
<b>Total</b>	<b>120</b>	<b>100</b>

Source: Field Data, (2019)

From table 4.3 above, it can be deduced that a total of 63% of the business have been in existence for less than 5 years with only 37% having been in existence for more than 5 years. This indicates that majority of the businesses are in their earlier stages of growth. At the early stages of small business development, there are some common problems that arise such as obtaining enough customers and delivering the product or service promised, as well as vital resources to compete against existing firms. To overcome these challenges owners and operators of the businesses must focus on improving their management skills and obtain the necessary resources in order to woo customers and investors.

**d. Motivation to set up the SME**

Motivation which is the drive to achieve or to improve is very important in running a business as successful entrepreneurs are those who believe in what they are doing and are

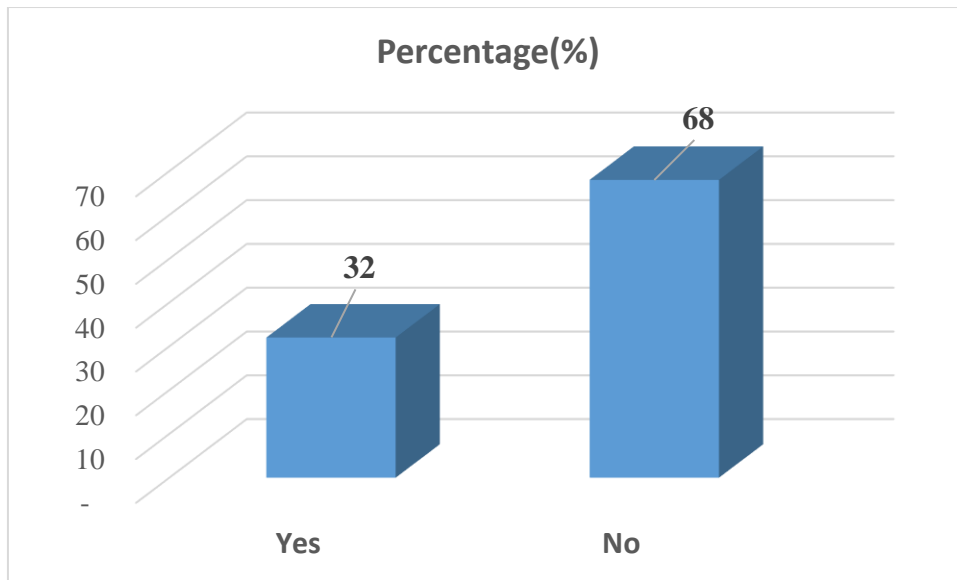
prepared to keep going and pursue goals in the face of setbacks. Motivation for starting a business thus plays an important role in the ability of the entrepreneur to succeed. To this end the owners and operators of the businesses were asked what motivated them to start their business. Some indicated that they wanted to work for themselves in order to control their own schedules, rather than working to please a boss. Others indicated they have interest in cooking and baking and therefore wanted to take up the business to supplement their income.

In addition, others indicated that they were unemployed for a long time and therefore decided to start the business in order to make a living. Start-up business motivation like this is a bit problematic as it shows that, the entrepreneur was motivated to start the business as a “Plan B”. Entrepreneurs who start businesses as their second plan, are the ones who give up easily in the face of setbacks as they lack the stamina to stick with their business venture and nurture it to grow. It is important that entrepreneurs display huge commitment and passion to their motivations. This commitment and drive fosters confidence and trust in customers as well as other stakeholders as it demonstrates that the business owner has their best interest at heart.

**e. Previous experience or training in the line of business**

Prior experience or training in a venture is an important ingredient for success as it exposes one to the complexities and intricacies in the venture. The respondents were asked to indicate whether they have any previous experience or training in the local food and bakery industry. Their responses are displayed in figure 4.1 below.

**Figure 4.1 Previous experience or training of respondents**



Source: Field Data, (2019)

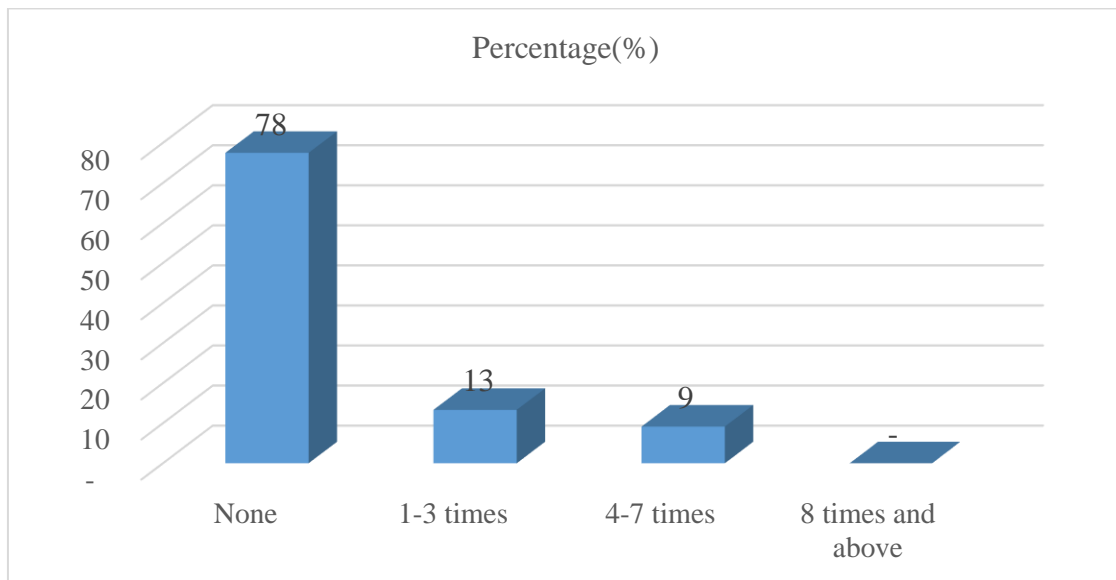
From the results displayed in figure 4.1 above 32% of the respondents indicated that they had previous experience or training in the line of business with as much as 68% of the respondents indicating that they had no previous experience in the business. This implies that majority of the owners and operators of the business were not well equipped with the relevant experience in the trade before starting the business. This presents a recipe for failure as this may cause them to focus their energies in areas of the business that may not generate the needed cash flow necessary for business growth. Furthermore, managerial focus will be skewed towards day-to-day operations and opportunistic actions rather than long term strategic actions. Previous experience or apprenticeship in the trade will help the business owners to avoid certain pitfalls in running the businesses profitably.



**f. Management training attended**

Continuous management development training is essential in any profession as it will enable one to develop and enhance his/her abilities. In this regard, the owners and operators of the businesses were asked to indicate the number of management training programme they have attended in the last three years. Figure 4.1 presents the results of the findings.

**Figure 4.2 Management training attended by Respondents**



Source: Field Data, (2019)

From Figure 4.2 above, it is evident that 78% of the owners and operators of the businesses did not attend any management training programme in the last three years. 13% attended management training programme 1 to 3 times during the last three years, 9% have attended training programme 4-7 times during the last three year. Whiles no one attended more than 8 trainings in the last three years. The standard in professional management is for each management personnel to have at least 3 trainings in a year. Therefore, with as much as 78% of the operators not attending any training at all in the last three years and only 22% going on training programme shows that managerial competence might be very low

in the industry. Majority of the managers of the businesses will be missing out on knowledge on how to deal strategically with changing trends in the industry and the economy. Managers of the businesses need to improve their knowledge and skills through training if they are to remain competitive in their businesses segment.

## **4.2 Business Information**

The questions asked under this section relates to information on the businesses being surveyed. This will aid in accessing the state of the firms in the local food and bakery industry in Ghana.

### **4.2.1 Appraisal of Business Information**

This section presents an appraisal of the information obtained relating to the businesses surveyed.

#### **a. Legal form of the businesses**

All firms had to adopt some legal configuration that defines the rights and liabilities of participants in the business's ownership, control, personal liability, life span, and financial structure. This decision regarding the legal form a business chooses to operate under is very important as it will have long-term implication for the business. In order to appraise the legal form of the businesses surveyed, the respondents were therefore asked to indicate the legal form of their businesses. The responses are presented in Table 4.4 below.

**Table 4.4 Legal Form of the Businesses**

<b>Rank</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Sole Proprietorship	107	89
Partnership	0	0
Limited Liability Company	13	11
<b>Total</b>	<b>120</b>	<b>100</b>

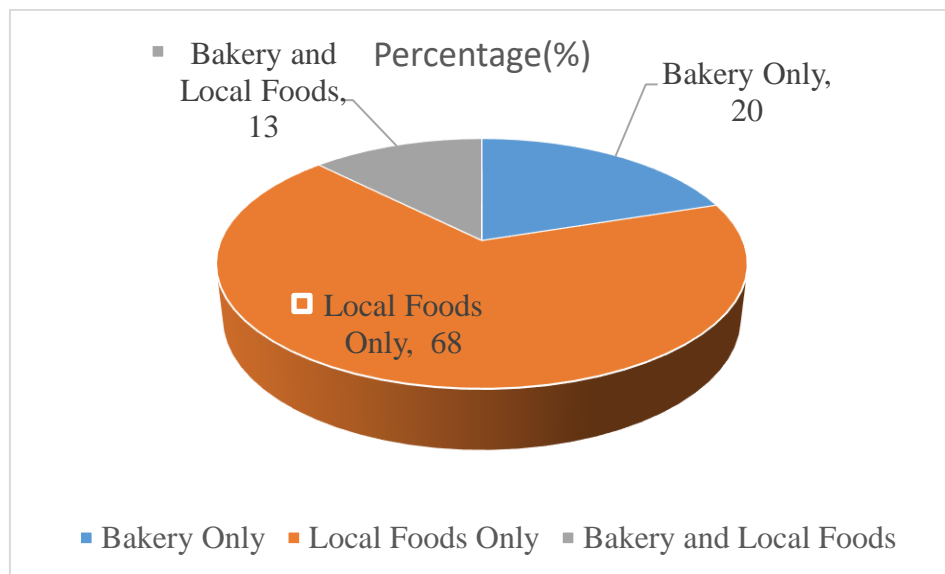
Source: Field Data, (2019)

As shown in table 4.3 above, 107 of the respondents representing 89% indicated that they operate as sole proprietorships, none of the respondents operate the businesses in form of partnership with the remaining 13 businesses representing 11% operating in the form of limited liability companies. This results shows that majority of the firms operating in the local food and bakery industry in Ghana are sole proprietorship with very few operating as limited liability companies. This is understandable, as sole proprietorships are easy to form and allow the owners to enjoy sole control of the business and the profits which is convenient for Small and Medium-sized enterprises. However, adopting a sole proprietorship structures comes with several disadvantages relating to taxes, losses and image which are settled is adopting a limited liability structure. Limited liability companies have better tax arrangement as they are separate legal entities from their owners. It limits the liability of the owners to only the capital that they have contributed into the business. Furthermore, adopting a limited liability structure can provide the business with a more professional image. Banks and other financial institutions prefer to deal with limited liability companies than sole proprietorships.

**b. Categories of the businesses**

The survey sort to establish the nature of the businesses being studied. In this regard the respondents were asked to indicate the business category which best described their business in terms of being bakery only, local foods only or both. The responses are shown in figure 4.3 below.

**Figure 4.3 Category that best describe the businesses**



Source: Field Data, (2019)

From the results shown in figure 4.3 above 20% of the firms surveyed operates as bakery only, 68% operate as local foods only with 13% operating as both bakery and local foods.

This indicates that majority of the businesses operate as local foods only. The local food businesses are popularly referred to as chop bars in Ghana. These chop bars are local eating establishments that prepare and serve delicious Ghanaian dishes. The second largest category are those that operate as bakery only producing and serving bread, pastries, cakes, biscuits cookies among others. A few of the companies operate bakery

and local foods together. These businesses are medium sized, employing more than ten people and have been positioned to provide one stop shop for their patrons.

**c. Number of employees**

The number of people employed is an important factor in the definition of Small and Medium-Sized enterprises (SMEs). In order to establish the number of people employed by the businesses, the owners and operators were asked to indicate the number of employees they have. The results is depicted in table 4.5 below.

**Table 4.5 Number of People Employed**

<b>Rank</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>1-5 People</b>	64	53
<b>6-10 People</b>	46	38
<b>11-50 people</b>	8	7
<b>51 and above people</b>	2	2
<b>Total</b>	<b>120</b>	<b>100</b>

Source: Field Data, (2019)

From the results shown in table 4.5 above 64 of the business representing 53% employs 1-5 people, 46 of the businesses representing 38% employ 6-10 people, 8 businesses representing 7% employ 11-50 people while only 2 of the businesses representing 2% employs 51 and more people. These results indicate that majority of the businesses representing 98% employ less than 50 people with only 2% employing more than 50

people. The businesses in the local food and bakery industry in Ghana can largely be described as small enterprises employing up to 50 people.

**d. Succession planning**

Succession planning is very important for ensuring the continued success and existence of any business. It involves the identification and development of employees that will fill critical roles in the business in the future, or in times of crisis. If there is only one person with breadth of knowledge that keeps the business moving, should anything happen to that person by way of sickness or death the business suffers greatly. To ascertain whether the businesses have succession plans, the owners and operators were asked if they have identified or trained any of their employees who is or are capable of running the business successfully in their absence. The results are shown in table 4.6 below.

**Table 4.6 Succession Plans in the businesses**

<b>Rank</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Yes</b>	24	20
<b>No</b>	96	80
<b>Total</b>	<b>120</b>	<b>100</b>

Source: Field Data, (2019)

From the results shown in table 4.6 above, a total of 24 of the businesses representing 20% indicated that they have succession plan in place. As many as 96 of the 120 businesses representing the majority indicated that they have no succession plans. This revelation is quite disturbing as the business without succession plans will be exposed to key man risk should the main driver (key man) of the business becomes incapacitate. Also, banks will find it difficult granting facilities to these businesses as a result of the obvious risk.

Succession plans for small and medium-sized businesses need not be complicated or formal but the talents capable should be identified, trained and made aware that they are involved in plan to take the helm should the unfortunate happen.

**e. Number of Branches or Sales Outlets**

The number of branches or sales outlet a business has demonstrates the marketing drive of the business. The owners and operators of the businesses were asked to answer “Yes” or “No” to the question of whether they have branches or sales outlets and if yes, indicate the number. The results are shown below in table 4.7 below.

**Table 4.7 Number of Branches or Sales Outlets**

<b>Rank</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Yes</b>	84	70
<b>No</b>	36	30
<b>Total</b>	<b>120</b>	<b>100</b>

Source: Field Data, (2019)

From the results shown in table 4.7 above, a total of 84 businesses representing 70% indicated that they have branches or sales outlets. Only 36 of the businesses representing 30% indicated that they have no branches or sales outlets meaning they produce and sell their products from one location. Those that indicated that they have branches or sales outlets have branches or sales outlets ranging from 2 to 15. This depicts the extent of their market penetration and desire to increase market share and gain dominance in the industry.

It is clear from the responses that success in the industry depends on having a strong distribution network that brings the products closer to the final consumer.

#### **f. Sources of Start-up Capital**

Start-up capital is the initial investment in developing a business or a product. It is mainly used to pay for any or all of the required expenses of creating a new business, including office space, permits, licenses, inventory, research and market testing, product manufacturing, marketing, or any other expense to get the business off the ground. Start-up or initial capital required in any business is very important as it determines the extent to which market participants can enter or exit the industry. The issue is that raising the required start-up capital is a major challenge for most entrepreneurs particularly for those who wish to set up small and medium sized businesses. In case of entrepreneurs and promoters of large enterprises this start-up capital challenge can be surmounted as they are capable of presenting a solid business strategy in order to sell their ideas to banks and other financiers. The study therefore sort to establish how the business owners obtained the initial capital to start the business. The respondents were to indicate how they obtained the start-up capital to start their businesses from a list of funding options. The results are shown in table 4.8 below.



**Table 4.8 Sources of start-up capital**

Source of Capital	Frequency	Percentage (%)
Own Savings	81	68
Family and Friends	22	18
Bank Loan	6	5
Non-Bank Institution Loan (NBFIs)	11	9
Others (Indicate)	0	-
<b>Total</b>	<b>120</b>	<b>100</b>

Source: Field Data, (2019)

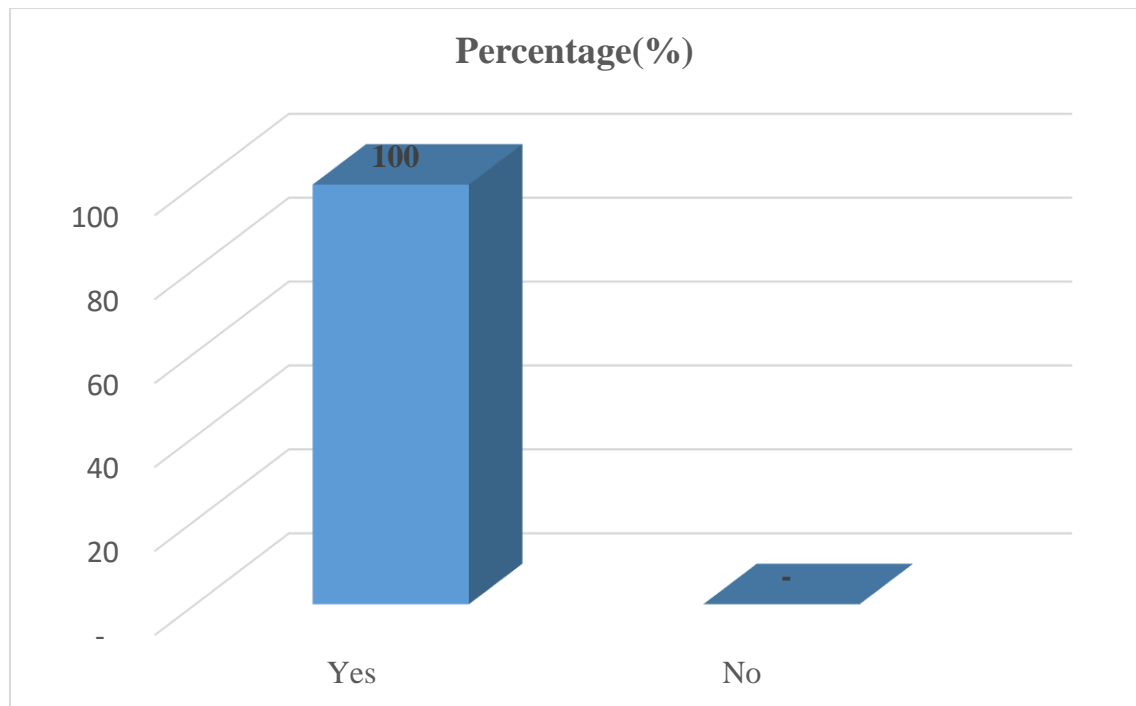
From the results shown in table 4.7 above a total of 81 of the owners representing 68% started their business from their own savings, 22 of the owners representing 18% obtained their start-up capital from family and friends, 6 of the owners representing 5% obtained their start-up capital through Bank loan. 11 owners representing 9% obtained their initial capital through Non-Bank Institution loan. None of the owners indicated any other sources aside the funding options provided. This means that majority of owners of the businesses totalling 86% started their businesses with funds from own savings and family and friends. This source of funding is easy to access and it is also less expensive. Again it is easy to assume the risk of failure associated with setting up a business with one own savings and that of family and friends than those provided by financial institutions. However, start-up capital obtained from own savings and family and friends is often inadequate.

Another striking finding from the results is that only 5% of the owners obtained their start-up capital from banks. This confirms that banks shy away from funding start-up businesses due to their perceived risk.

**g. Current Funding Needs**

Businesses need finance from time to time to fund working capital such as inventory, payment of wages and salaries, overhead cost etc. Funding is also required to finance capital expenditure such as machinery, vehicles, buildings and so on. Funding for both working capital and capital expenditure is very crucial for business growth and survival. To this end, the owners of the businesses were asked to indicate whether they currently need funding for their businesses. The results are shown in figure 4.4 below.

**Figure 4.4 Current Funding Needs**



Source: Field Data, (2019)

From the results shown in figure 4.4 above, all the 120 owners of the businesses representing 100% indicated that they currently need funding for either business for expansion and growth. This is a strong indication of excess capacity and underscores the fact that majority of the SMEs in the local food and bakery industry in Ghana are in need of finance for growth and expansion.

#### **h. Pecking Order for External Source of Financing**

The hierarchical order of institutions where SMEs source funding indicates how supportive those financial institutions are to the financing needs of the SMEs. In this regard, the business owners and operators were asked to rank in order of preference on a scale of 1-6 with 1 being their first choice the external financial institution they will seek funding if they require financial assistance to support the growth of the business. The results are shown in table 4.9 below.

**Table 4.9 Pecking Order for External Source of Funding**

<b>Institution</b>	<b>Score (%)</b>	<b>Rank</b>
Savings and Loans Institution	35	1st
Micro Finance Institution	26	2nd
Bank	22	3rd
Stock Exchange (GSE)	8	4th
Venture Capital Fund	6	5th
Others (Leasing, Trade Credit)	4	6th
<b>Total</b>	<b>100</b>	

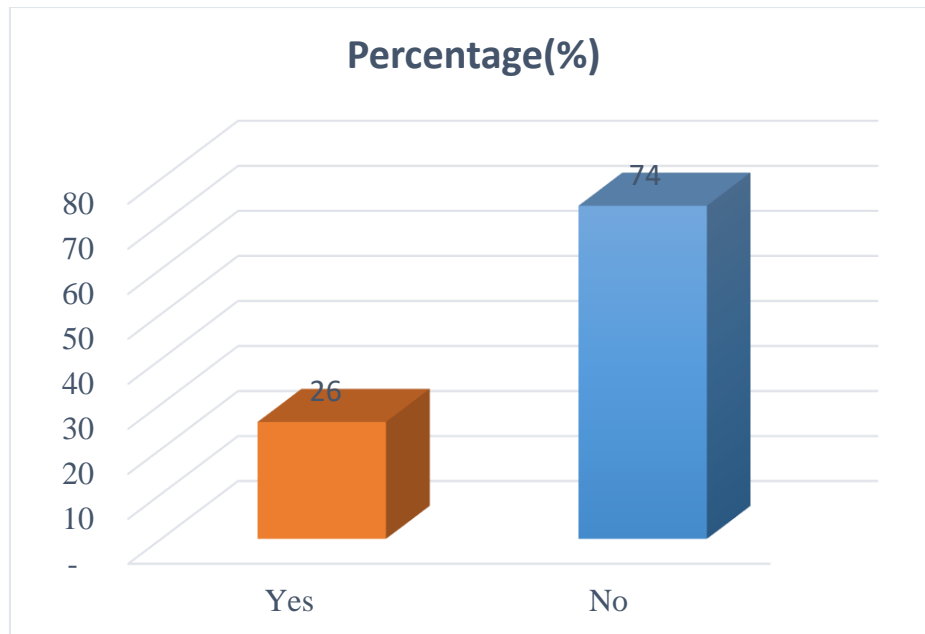
Source: Field Data, (2019)

From the results shown in table 4.9 above, the order of preference for the businesses in seeking external funding is Savings and Loans institution which ranked first with a score of 35 % followed by microfinance institutions, Banks, Stock exchange, venture capital and other such as leasing and Trade credit in order of preference scores of 26%, 22%, 8%, 6% and 4% respectively.

This means that the Savings and Loans institutions and Micro Finance institutions are more supportive to the financial needs of the SMEs compared with other financial institutions. This is due to the assertion that Savings and Loans institutions and Micro Finance institutions have simple loan application procedures as well as an appreciation of the nature, operations and needs of SMEs than the other financial institution such as Banks and the stock exchange. The disadvantage however is that, the loans granted by Savings and Loans institutions and Micro Finance institutions are at higher interest rates which place a huge financial burden on the SMEs leading to high loan default rate. The banks and other financial institutions which offer relatively lower rate of interest on loans and management support skills have shown reluctance in supporting the SMEs due the perceived high credit risk and opaqueness associated with SME businesses.

**i. Bank Finance to the Businesses in the Past Five Years.**

Banks are better placed to offer effective support to SMEs than Savings and Loans and Micro Finance Institutions due to their structure, size, capacity and financial resources. In view of this, the owners of the businesses were asked to indicate whether they have obtained a loan or credit guarantee from their bankers in the past five years. The responses are shown in figure 4.5 below.

**Figure 4.5 Bank Finance to the Businesses in the Past Five Years**

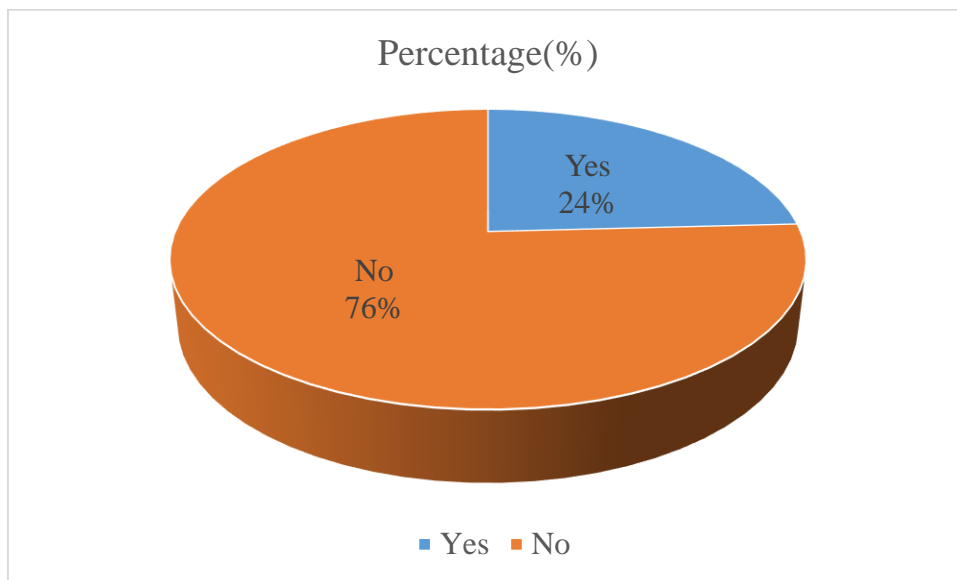
Source: Field Data, (2019)

From the results shown in figure 4.5 above, only 26% of the businesses indicated that they received financing from their Banks in the past 5 years. The majority of the business owners constituting 74% did not receive any financing in the form of a loan or credit guarantee from their Banks in the past five years. This depicts that Bank financing to the SMEs is very poor. The reasons for this may be attributable to the fact that most SMEs do not have publicly available information that will aid the banks in assessing their creditworthiness. In recent times, financial regulations require banks to keep detailed information on clients to the detriment of SMEs which by their natures are not able to meet bank information requirements. Furthermore, most of the small businesses do not have the needed collaterals which are usually required by banks as security against credit failures. However, when banks extent credit to SMEs it turns out to be effective as the constant monitoring and skills training usually offered by the banks enable the businesses to deploy the funds more efficiently.

**j. Business Plan**

All businesses require strategic planning and development to direct their growth trajectory. The tangible output of this strategic planning and development is the written business plan which serves to articulate the strategic vision of the entrepreneur and also as a tool to achieve short and long-term objectives. In view of the importance of a business plan for the successful running of a business, the owners of the businesses were asked to indicate whether they have a business plan and if they do not have any indicate what directs the mission of their business. The results are shown in figure 4.6 below.

**Figure 4.6 Existence of Business Plan**



Source: Field Data, (2019)

From the results depicted in figure 4.6 above 24% of the business owners indicated that they have a business plan and 76% indicated that they do not have a business plan. This clearly shows that majority of SME businesses do have business plans. When asked what directs the mission of the business in the absence of a business plan, many stated that they rely on their passion and trends in the industry to grow the business. The implication of this is that the management approach of these businesses will be based more on intuition

rather than analytical and focus on opportunistic behaviour which does not lead to sustainable businesses growth.

Another striking revelation regarding business plan is that there is a perception among the owners of Small businesses that a business plan is only a means to obtain funds from a bank or other institutional lenders. This is not entirely true as a business plan is a vital document for driving the business for growth and survival.

#### **k. Keeping of Accounting Records**

Everyone in business must keep records. Keeping accurate accounting records allows a business to be able to prepare financial statements quickly and accurately. Furthermore, it allows the business to provide information to enable it control its cash resources effectively. In view of this, the research sort to ascertain the extent to which the SMEs keep financial information regarding their business operations. The results are shown in table 4.10 below.

**Table 4.10 Extent of Accounting Record Keeping**

<b>Rank</b>	<b>Frequency</b>	<b>Percentage (%)</b>
I keep records of only my sales activities	21	18
I keep records of only expenses	13	11
I keep records of sales and expenses	39	33
I have a full accounting system	18	15
I do not keep any accounting records	29	24
<b>Total</b>	<b>120</b>	<b>100</b>

Source: Field Data, (2019)

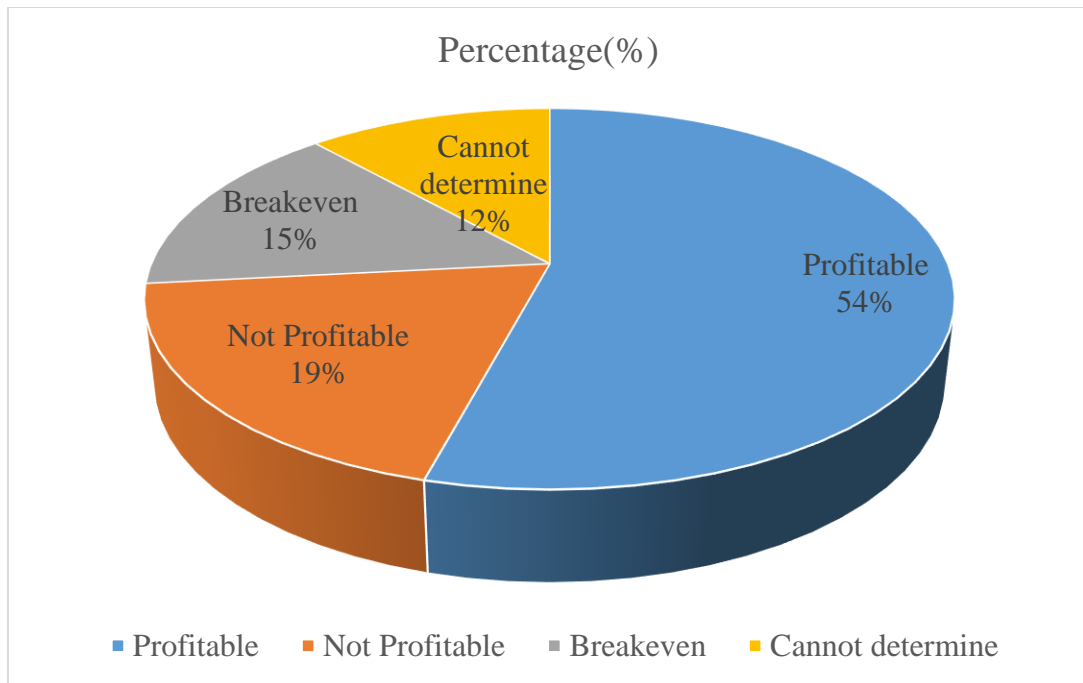
From the results shown in table 4.10 above 21 of the owners representing 18% kept records of only their sales activities, 13 owners representing 11% kept records of only expenses, 39 of the owners representing 33% kept records of sales and expenses, 18 of the business owners representing 15% maintained a full accounting system and lastly 29 of the business owners do not keep any accounting records at all. This revelation established that 75% of the SMEs in the local food and bakery industry maintain an incomplete accounting record which places their businesses at a disadvantage position regarding access to external funding and tax issues with the domestic tax administrators.

#### **1. Profit Situation**

Profit is equal to a firm's total revenues less total expenses. Earning a profit is important to a small business because profitability impacts whether a company can secure financing from a bank, attract investors to fund its operations and grow its business. Firms cannot remain in business without turning a profit. Therefore the survey attempted to seek the profit situation of the businesses by asking the business owners and operators to describe the profit situation of their businesses in the past three years. The responses are shown in figure 4.7 below.



**Figure 4.7 Profit Situation of the Businesses**



Source: Field Data, (2019)

From results shown in figure 4.7 above 54% of the businesses are profitable in the past three years, 19% were not profitable, 15% were breaking even and 12% cannot determine whether they were making profit or not meaning they have no system in place to determine the profit situation of the business. On the whole it can be deduced that majority of the businesses are profitable and efforts must be made to boost revenue and minimise or control expenses to keep to the profit trend. This shows that if the SMEs in the industry are properly supported by all stakeholders, they will be able to expand and offer employment to the teeming unemployed youth in the country.

### **m. Challenges in Running the Business**

Small and medium-sized businesses by their nature face many obstacles that restrict their long term survival. The survey asked the owners and operators of the businesses to state

the challenges they face in running the business. A summary of the challenges facing the businesses as stated by the owners and operated are listed below.

1. High utility charges-These relate to water, electricity, telephone, rental and other charges that are too high to bear thereby having a tool of the businesses
2. Harassment from state regulatory agencies-Official from the Food and Drugs Authority (FDA), Ghana Revenue Authority (GRA), and the Municipal and District Assemblies have been sited to be constantly harassing the business owners and operators regarding compliance to one regulation or the other.
3. Limited access to finance- Many of the businesses stated inadequate funding and access to external finance a challenge in running the businesses.
4. Inability to keep records- Inability to keep accounting and other operational records of their business has been identified by the business owners and operators as a challenge they face in running their business. This is as result of the inability of the businesses to employ, train and maintain professionals in the field of accounting and business management.
5. Unfavourable business environment- Unfavourable business environment arising from unfriendly legal requirements, high taxes and import duties, high inflation, fluctuating and unreliable exchange rates, all makes it difficult for the businesses to make sufficient profits to grow and expand.

#### **n. Order of Solutions to address the Challenges**

The owners and operators where asked to rank in order of preference suggested solutions to the challenges that confront their businesses. The results are shown in table 4.11 below.

**Table 4.11 Order of Solution to address business challenges**

<b>Suggested Solutions</b>	<b>Score (%)</b>	<b>Rank</b>
Increase access to finance	45	1st
Government support e.g. Taxes, guarantees	23	2nd
Lower electricity charges	21	3rd
Staff and management training	10	4th
Others (Networking)	1	5th
<b>Total</b>	<b>100</b>	

Source: Field Data, (2019)

From the results in table 4.11 above, increase access to finance scored 45% and it is regarded as the first solution to the challenges facing the SME businesses. This is followed by Government support which scored 23%, Lower electricity or utility charges 21%, Staff and management training 10% and networking 1% in that order of preference. Networking was explained as an arrangement where the business will be connected with new buyers and trading partners to finance their growth. The overall results indicates that ease of access to finance and effective governmental support are key solutions to unlocking the huge constraints to SME growth and development.

### **4.3 Industry Information**

The questions asked under this section relates to information relating to the local food service and bakery industry. This will help in accessing the nature and attractiveness of state of the industry.

#### **4.3.1 Overview of the Local Food Service and Bakery Industry**

The local food service and bakery industry in Ghana is wide known. Local Ghanaian restaurants popularly called chop bars and bakeries can be found anywhere in Ghana be it in the city, town or village. These Local Ghanaian restaurants referred to as Chop Bars are local eating places where local foods are prepared and served. Some delicious indigenous dishes served include; banku and okro soup or stew, fufu with groundnut, palm nut, light or nkontomire soup, omo tuo, tuo zaafi, kokonte, ampesi and among others with different fishes and meats like grass cutter("akrantie"), antelope("adowa"), deer("otwe"), bush ram also known as "owansane".

Prior to the year 1990s, most chop bars were the easiest and simplest eating places anybody can find as they operate in open spaces, wooden structure with local setup serving mouth-watering dishes with bars stocked with local alcoholic beverages and a few foreign alcoholic beverages for the affluent. However, the chop bar business in Ghana has witnessed gradually transformation over the past two decades following the transition of the country from military rule to civilian rule which made the country attractive to foreigners.

Furthermore, the hosting of the African Cup of Nations (AFCON) in Ghana in 2008 also gave an impetus to the transformation of the chop bar business. As part of arrangements to host the football tournament, the Ghana Tourist Board embarked on a massive training programme for food vendors and chop bar operators to enable them provide quality and efficient services to tourists who would visit the country. The training programme facilitated by Cook Art Company in January 2008 attracted about 5,000 vendors, bakers

and chop bar operators in eight out of the ten regions of Ghana, namely; Greater Accra, Volta, Central, Western, Eastern, Ashanti, Brong Ahafo and Northern regions. The participants were taken through topics like food hygiene, customer care, food production, and facility management among other topics related to catering which went a long way to change the orientation of the operators.

Today, the Ghanaian local restaurants or chop bars and bakery businesses have upgraded their operations, mode of cooking, interior decorations and food delivery. Many of them offer a full range of food service of local foods and bakeries. The bakeries served tasty breads, cakes, pastries, cookie among others. Ghana now has chop bars that employ many people and occupy three story buildings with magnificent decorations with the usual warm ambience that is noticeable in the chop bars of old. These chop bars and bakeries now play a very important economic and cultural roles in the tourism and hospitality industry in Ghana.

### **Major Players in the Industry**

The major players in the industry include; Asanka Local, Champion Dishes, Buka African Restaurant, Las Palmas, A1 Bakery, Isdee Bakery and Catering services and Ashanti home touch. These firms are local food service only, Bakery only or both local food and bakeries.

### **Barriers to Entry**

To become a major local restaurant or bakery require a large amount of capital to purchase equipment and premises and one is likely to face stiff competition from the existing well-known brands due high profitability in the industry. However, opening a small, retail bakery or chop bar requires less capital and it is easier to start. Smaller bakeries or food vending joint can establish themselves with specialty produce and services and develop a loyal following of local customers.

### **Threats to the Market**

Consumers of food are becoming more health conscious. This means they will be demanding more healthy diet containing low fat, low-carbohydrate and organic products. Government regulations continue to weigh heavily on the industry. The Environmental Protection Agency (EPA) and the Food and Drugs Authority (FDA) are constantly overseeing the operations of chop bars and bakeries and will be issuing new regulations that will increase the cost of production.

### **Outlook for the Future**

The food services industry is expected to grow in the coming decade. Consumption will be affected by changes in disposable income, consumer preferences and economic conditions which will bring new competition in the market that is already dense. Large brands will continue to dominate the competition in the market, because the other firms are small and the market is highly fragmented. The use of mobile devices to facilitate transactions and save time will change the competitive landscape in the industry. Firms

need to innovate and invest in technology and provide reward incentives that will increase the number of sales and generate more revenue.

### 4.3.2 Appraisal of the Industry Information

This section presents an appraisal of the information obtained relating to the industry from the view of the businesses owners and operators.

#### a. State of Competition in the Market

The owners and operators of the businesses were asked to appraise the state of competition in the market with regard to the following variables; Prices, New product development, advertising and distribution. The respondents were asked to tick their views of the state of competition in the market with regards to the four variables on a five point Likert scale of ‘very strong’, ‘strong’, ‘medium’, ‘weak’, and ‘very weak’. The statistics of the results are represented in table 4.12 below.

**Table 4.12 State of competition in the market**

<b>Competitive Variable</b>	<b>Very strong</b>	<b>Strong</b>	<b>Medium</b>	<b>Weak</b>	<b>Very weak</b>	<b>Total</b>
Prices	56%	40%	4%	0%	0%	100%
New Product Development	0%	4%	21%	36%	39%	100%
Advertising	45%	30%	20%	5%	0%	100%
Distribution	43%	36%	21%	0%	0%	100%

Source: Field Data, (2019)

### **1. Prices**

Price is the amount of money that has to be paid to acquire a given product or service. In an open market firms compete on price by trying to sell their products or services at lower prices than similar products or services sold by other firms. From the results shown in table 4.12 above, 56% of the owners and operators of the businesses indicated that completion on price is very strong in the market, 40% indicated that price is strong, 4% indicate that it is medium with none of them stating that price was weak or very weak. This means that price is one of the main competitive tools in the market.

### **2. New Product Development**

New product development is the process of bringing a new product to the marketplace.

There is the need for the business to engage in this process due to changes in consumer preferences, increasing competition and advances in technology or to capitalise on a new opportunity. From the results shown in table 4.12 above, none of the owners indicated that product development is very strong, 4% of the owners indicated that it was strong, 21% indicated that it is medium, 36% indicated that it was weak and 39% indicated that it is very weak. The results show that new product development as a competitive tool is very weak.

### **3. Advertising**

Advertising helps the customers to know about the existence of various products and their prices. They can choose from the various brands to satisfy their wants. Businesses use advertisement as a tool to compete for market share in the industry. From the results shown



in table 4.12 above, 45% of the business owners and operators indicated that advertising is a very strong, 30% indicated that it is strong, 20% indicated that it is medium, 5% indicated that it is weak with none indicating that it is very weak. This means that advertising is an important competitive tool in the industry. It is very important for the customers to know about the existence of the products in the market. Effective advertisement creates awareness to the firm's products and services and lead to increase in sales revenue.

#### **4. Distribution**

Distribution play a critical role in connecting the consumer to the product or service.

From the results in table 4.12 above, 43% of the business owners and operators indicated that distribution is a very strong competitive tool, 36% indicated that distribution is strong, 21% indicated that it is medium and none indicated that is weak or very weak. This means that ability to distribute products increases a firm's competitiveness. Developing and maintaining a wide distribution network in the food service and bakery industry is key success factor.

##### **b. Source of raw materials**

The source of raw material is very important strategic resource in the food service industry as material input constitute a significant portion of the cost of manufacturing of firms in the industry. The owners and operators of the business were asked to state how they obtain raw material supply for their production. Many of them responded that they obtain their materials from the main market place at Agogloshie, Makola, Malata and Medina all in

the Greater Accra Region of Ghana. Some of them indicated that they have supply contracts with some out grower farms and flour manufacturing companies such as Diamond flour and Takoradi flour mills. On ease of access to the raw materials, many of the operators explained that it is very easy to obtain the raw materials for production. The ease of access to raw material is of one the barriers to entry to an industry. When only a few firms control access to raw materials it will make it difficult for potential competitors to enter the industry. From the results, it can be conclude that access to raw material is not a barrier to entry into the industry.

### **c. Supplier support**

A good relationship with suppliers is a vital part of business success. Suppliers not only provide the business with the goods and services they need to run their businesses but they can also be an important source of information, advice and trade credit. To determine the extent of support and relationship between the supplier and the businesses, the respondents were asked to state the kind of facility they enjoy from their suppliers. Many of them indicated that their suppliers offer them trade credit by giving material supplies on credit with payment at a later day, usually between 30 to 90 days. This is very good as it offer the SMEs space to produce and sell before making payment for the material supplier. The opportunity cost will have been to source for loans from banks which is difficult to obtain. Other also indicate that their supplier help that my delivery their material as and when they need them, making that have fresh material and relieving them of the cost and problems associated with storing the raw materials. It is therefore important for the businesses to build good relationship with their suppliers for their mutual benefit.

**d. Bargaining power of suppliers**

The bargaining power of suppliers which one of Porter, (1980) five competitive forces in an industry refers to the pressure suppliers can exert on businesses by raising prices, lowering quality, or reducing availability of their products or services. If suppliers have a strong bargaining power they can decrease the profits that firms can make in the industry. In reference to this, the owners and operators of the businesses were asked to indicate whether they have any power to influence the price at which their supplier sell to them. All of them indicated that they are able to negotiate prices with their suppliers since the suppliers are many and they easily switch to other suppliers. This gives an indication that the bargaining powers of suppliers in the industry is not strong.

**e. Main Consumers**

It is important for a business to know its customers so that they can better serve them. Knowing customers can also help the business get more leads and more business which will lead to developing strong customer relationships. The owners and operators of the business were asked who their main customers are and whether they are able to meet their needs. They indicated that their main customers are walk in customers and corporate institutions and they believe that they are meeting their needs. It is important for the business to have a system where they can empirically determine the extent to which they are satisfying the needs of their customers so they can give them good service. This will lead to increased customer satisfaction and generation of new sales through positive word-of-mouth recommendation.

**f. Factors that will change the competitive landscape**

The competitive landscape of industries change with times and knowledge of this will help a business adopt strategies that will enable it remain competitive in the future. In this regard the business owners and operators were asked to state the factors they consider will change the competitive landscape in the local foods and bakery industry. The summary of their responses are stated below.

- The use of technology (mobile phones) by consumers to make orders and shop for better prices of meals and bakery products.
- The need for the business to use technology as a competitive tool.
- The need to improve packaging and delivery of meals and services.
- The need for innovation in ingredients as customers are demanding more healthy meals.

**4.4 Government Action**

The questions under this section relate to the extent to which government and other donor agencies have supported the SMEs in the local food and bakery industry in Ghana. Government support is expected to accelerate the growth and expansion of the SME businesses.

**a. Support from Government**

The owners and operators of the businesses were asked to indicate whether they have ever received support from the government in with respect to the following support variable;

Financial, Training, Subsidies, Purchase orders, Tax incentives, Credit guarantees and No support. The results are shown in table 4.13 below.

**Table: 4.13 Support received from government**

<b>Support Variable</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Financial Support	12	10
Training	0	-
Subsidies	0	-
Purchase Orders	2	2
Tax Incentives	0	-
Credit Guarantees	0	-
No Support	106	88
<b>Total</b>	<b>120</b>	<b>100</b>

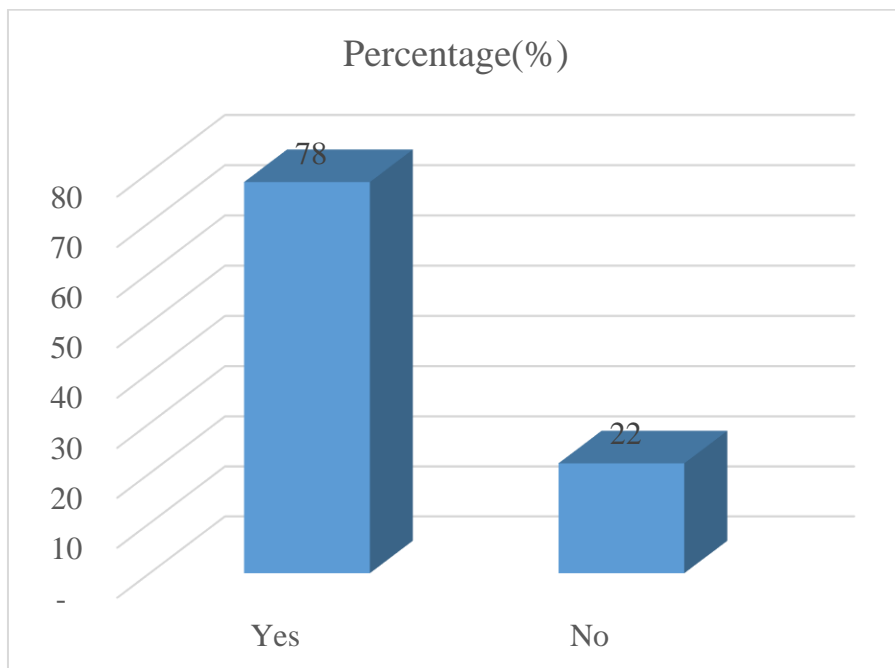
Source: Field Data, (2019)

From the results in table shown in table 4.13 above 12 of the respondents representing 10% indicated that they have at some time(s) received financial support from government, 2% received purchase order, none of them received support in terms of training, subsidies, tax incentives and credit guarantees. As much as 106 of the owners and operators representing 88% indicated that they received no support from the government. This results show that government support to the firms in the local food and bakery industry is very low. This will not help the firms in the industry to expand and employ more people. Again, the business cannot compete effectively in the sub-region and in the global competitive market.

**b. Awareness of government assisted support institution**

Government support and programs aimed at boosting the capacities of SMEs for growth are usually carried out through government assisted institutions and programmes. Sometimes most SMEs are not aware of these institution to access the support been offered by these intuitions. In this respect the owners and operators of the businesses were asked whether they are aware of any government assisted support institution that provides financial or technical support to SMEs in their industry. The responses are shown im figure 4.8 below.

**Figure 4.8 Awareness of government assisted support institution**



Source: Field Data, (2019)

From the results shown in figure 4.8 above 78% of the businesses owners and operators indicated that they are aware of government assisted support institutions while 22% of them indicated they are not awe are of such institutions. Those who indicate that they are aware named the institutions as the National Board for Small Scale Industries (NBSSI), The Association of Ghana Industries (AGI), Microfinance

and Small Loans Centre (MASLOC) and the Ministries, Municipal and District Assemblies (MMDAs). The results shows that while majority of the SMEs are aware of the existence of these institutions they actions and activities are not covering many of the SMEs in Food and Bakery industry. There is the need for government to increase its support to these catalyst institutions and ensure that their activities reach as many of the SMEs as possible.

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATION**

#### **5.0 Introduction**

The local food service and bakery industry in Ghana has transformed over the years and it is now widely known. At every 100 metres one is likely to find a local Ghanaian restaurant popularly called chop bar and or a bakery offering delicious Ghanaian dishes or bakery product to both local and foreign nationals. The industry also offers employment to a lot of people of all ages. The main objective of the dissertation is to harness the growth of the SMEs in the local food and bakery industry to contribute significantly to the economic growth and development of Ghana. This involves the highlighting of the main issues hampering growth and the designing of effective strategies that will lead to survival and growth of the businesses.

#### **5.1 Main Issues in the Local Food and Bakery Industry**

The main issues which were revealed in the study are as follows;

1. The local foods and bakery industry in Ghana is a female dominated industry. 72% of the owners and operators of the businesses are females. Also, majority of people constituting 70% who owned and operate the business are in the age bracket of 41 years and above. This is attributable to the finding that a significant portion of the start-up capital of these SMEs comes from owned savings which is accumulated with age.
2. Majority of the business constituting 63% have been in the business for less than five years meaning that they are in their early stages of growth.



At this stage of growth, challenges such as obtaining enough customers and vital resources to deliver the promised products and service become eminent.

3. Managerial skills and training is low in the industry as 68% of the owners and operators entered the industry with no prior formal managerial training or apprenticeship in running a business. Also, 78% of the owners and operators of the SMEs have not attended any management training in the past three years. This is a recipe for failure as managerial focus will be more towards operations rather than long-term strategic concerns.
4. The legal configuration adopted by most firms in the local food and bakery industry in Ghana is sole proprietorship. 89% of the SMEs are sole proprietorship as opposed to 11% being limited liability companies. The sole proprietorship status of majority of the firms places them at an advantage in obtaining external funding as commercial banks and other external financiers prefer dealing with limited liability companies.
5. Many of the firms in the industry constituting 91% employ less than 10 people. This presents opportunities for growth and expansion.
6. Succession planning which is the identification and development of employees that will fill critical roles in the business in the future or in times of crisis is identified to be very low. Only 20% of the SMEs in the local food and bakery industry have succession plans.

7. All the SMEs in the industry indicated that they need immediate finance to fund growth and expansion. And will prefer to seek funding from savings and loans and microfinance companies than commercial banks and other external funding sources.
8. Access to finance has been identified as a major challenge facing the businesses and also commercial banks that have the capacity to support have failed to support in the manner required. A total of 74% of the businesses could not access any facility in the form of loans or credit guarantees from the commercial banks in the past five years. This is because of the inability of the businesses to meet standards set by the banks in granting loans and credit guarantees.
9. Majority of the SMEs constituting 76% did not have business plan and therefore run the businesses on the passion and drive of the business owners. Also, the level of keeping records is very poor in the industry. Only 18% of the SMEs have a full accounting system in place.
10. Profitability in the industry is very good. As 54% of the business are making profits. 19% however could not establish whether they are making profits or not.
11. High utility charges and harassment from officials of state regulatory agencies such as the Ghana Revenue Authority (GRA) and the Food and Drugs Board (FDA) are some of the challenges faced by the businesses aside access to finance.
12. A major barrier to entry is start-up capital as a major local restaurant (chop bar) or bakery require a large amount of capital to purchase equipment and premises. Also there is stiff competition in the industries with the businesses competing on price, advertising and distribution.

13. The factors that will change the competitive landscape in the industry going forward include; the use of technology particularly mobile phones in service delivery, packaging and customer demand for more healthy foods.
14. Government support for the SMEs in the local foods and bakery industry is very poor. Only 12% of firms obtained some financial support from the government. 78% of the businesses are not aware of any government assisted institution providing financial and technical support to the SMEs. Governments often comes up with programmes and policies aimed at supporting SMEs but governments do not do enough business with SMEs. Government tenders often comes up with requirements that are difficult for SMEs to fulfil. From the study only 2% of the SMEs do business with government and its agencies.

### **5.3 Recommended Strategies**

In the light of the issues emanating from the study the following strategies and actions have been recommended for owners and operators of local foods service firms as well as other stakeholders including government to ensure the growth and survival of the SMEs.

#### **5.3.1 Improving the capacities of the SMEs**

1. The SMEs in the industry must make a deliberate effort to upgrade their management skills and also develop their capacity to gather information on consumers and trends. This will enable them manage their businesses properly so they will be attractive to customers and financiers.

2. The businesses must develop their capacity to maintain proper accounting records to enable them produce full set of financial accounts year on year. This can be achieved by engaging professional accounting personnel on a part-time basis or outsourcing the accounting function to professional accountants. This option is less expensive compared to engaging services of an accountant on a full-time basis. Engaging professional accountants on a part-time basis or outsourcing the accounting function will provide the business with other value added services such as material cost control and operational system management.
3. The owners and operators of the businesses must adopt measures that will improve service quality such as training of staff with the values of courtesy and friendliness that can woo and delight customers. This will boost sales revenue and create customer loyalty.
4. The businesses must focus on strategies aimed at identifying and serving segments of the market that they can serve rather than strategies that serve the mass market. The segment identified must however be large enough to return profit. Serving the mass market require enormous resources and leads to over exposure and increased competition which can lead to business failure.
5. The managers of the businesses must engage in efficient networking by collaborating with suppliers and other businesses to share ideas, knowledge and opportunities. This will allow the owners and operators of the businesses to gain insight that will bring about innovations that will go a long way to help the businesses remain competitive.

### **5.3.2 Improving Access to Finance**

1. The owners and operators of the businesses must be more transparent in the running of their businesses by presenting their business and future plans clearly to commercial banks and other financial institutions. This will enable financiers gain trust and confidence in the businesses so they can extend funding to them in the quantum required to fund their growth and expansion projects.
2. To minimise the risk of lending to the businesses in the industry, commercial banks and other financial institutions must play a more proactive role in the activities of these businesses that operate accounts with them by providing them with financial literacy, technical support and monitoring to enable them apply funding extended to them prudently.

### **5.3.3 Improving Government Support to the SMEs**

1. In order to harness the growth of the businesses in the industry, the government through its agencies must develop and implement policies and strategies for SMEs. This should include the provision of credit guarantees to enable the SMEs access loans and also provide seed funds to commercial banks for onward lending to SMEs at lower rates of interest.
2. Government must implement policies that will provide a market for the products and services of SMEs. Also, government should simplify its tendering processes to enable the SMEs to do business with government the largest spender in the economy.

3. Government must improve the investment climate and business environment for the SMEs by streamlining regulations relating to registration, licensing and other reforms that will lower the cost of compliance.

The implementation of the above strategies will enable the SMEs in the local food service and bakery industry harness their full potential and contribute positively to the economic development of Ghana.

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**APPENDIX A**

**RESEARCH QUESTIONNAIRE/INTERVIEW GUIDE**

**UNIVERSITY OF GHANA BUSINESS SCHOOL**

**MSC DEVELOPMENT FINANCE**

**RESEARCH QUESTIONNAIRE/INTERVIEW GUIDE**

This questionnaire is designed to obtain responses on harnessing the growth of SMEs in Ghana-issues and strategies in the Local Food and Bakery industry. The study is conducted solely for academic purposes. Please be assured that your responses will be kept strictly confidential and used exclusively for the intended purpose(s) only.

**Instructions:** Tick in the appropriate box and or provide further information where applicable.

**SECTION A: SOCIAL DEMOGRAPHIC INFORMATION**

1. What is your gender?

Male {    }

Female {    }

2. How old are you?

Less than 30 years {    }

31-40 years {    }

41-50 years {    }

Above 51 years {    }

3. What is your level of education?

Primary { }

Secondary/vocational { }

Post-secondary { }

Tertiary { }

No Formal education { }

4. How long has the business been in operations?

Less than 1 year. { }

2-5 years. { }

6-9 years. { }

10 years and above { }

5. Kindly indicate what motivated you to set up this business?

---

6. Do you have any previous experience or training in this line of business?

Yes { } No. { }

7. How many Management training program have you attended in the last 3 years?

None { }

1-3 { }

4-7 { }

Above 8 { }

**SECTION B: BUSINESS INFORMATION**

8. What is the legal form of your business?

Sole Proprietorship.            {    }

Partnership.                      {    }

Limited Liability Company. {    }

9. Which of the following categories best describe your business?

Bakery Only                        {    }

Local foods only                  {    }

Bakery and Local food          {    }

10. How many employees do you have?

1-5.                                 {    }

6-10.                                {    }

11-50.                              {    }

Over 51                             {    }

11. Do you have a succession plan in place?

Yes.                                 {    }                      No.                      {    }

12. Do you have other branches or sales outlets

Yes.                                 {    }                      No.                      {    }

If you answered yes, how many outlets do you have?

---

13. How did you obtain the capital to start this business? Please tick as many as applicable

- Own savings { }  
Family and Friends { }  
Bank loan { }  
Non-Bank Institution Loan (NBFIs) { }  
Others (Indicate) \_\_\_\_\_ { }

14. Do you currently need funding for your business?

- Yes { } No { }

15. If you have need for external funding for your business which of the following institutions will you seek that funding? Kindly rank your choice in order of preference from 1-6 with 1 being your first choice.

- Bank { }  
Savings and Loans Company { }  
Micro Finance Institution { }  
Stock Market (GSE) { }  
Venture Capital Fund { }  
Others (Specify) \_\_\_\_\_

16. Have you obtained a loan or credit guarantee from your Bank in the past 5 years?

- Yes { } No { }

17. Do you have a business Plan?

- Yes { } No { }

18. If you answer no to Q.17 above what directs the mission of your business?

---

19. Describe the extent to which you keep accounting records for your operations

I keep records of only my sales activities { }

I keep records of only expenses { }

I keep records of sales and expenses { }

I have a full accounting system { }

I do not keep any accounting records { }

20. How will you describe the profit situation of your business in past three years?

Profitable { }

Not Profitable { }

Breakeven { }

Cannot determine { }

21. What are some of the challenges that you face in running this business?

---

---

22. What suggestions do you have to address some of the challenges? Kindly rank your choice by order of preference from 1-5 with 1 being your first choice.

Management Training { }

Increase access to funding { }

Lower electricity charges { }

Government support e.g. taxes, credit guarantees etc. { }

Others (Specify) \_\_\_\_\_



**SECTION C: INDUSTRY INFORMATION**

23. What is the state of competition in your market with regards to the following variables?

	Very strong	Strong	Medium	Weak	Very Weak
Prices	{ }	{ }	{ }	{ }	{ }
New Product dev't	{ }	{ }	{ }	{ }	{ }
Advertising	{ }	{ }	{ }	{ }	{ }
Distribution	{ }	{ }	{ }	{ }	{ }

24. Where do you usually obtain raw material supply for your business?

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25. What kind of facility do you enjoy from your suppliers?

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26. Do you have any power to influence the price at which your suppliers sell to you?

Yes { } No { }

27. Who are your main customers?

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28. What are some of the factors you consider will change the competitive landscape in the local foods and bakery industry.

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**SECTION D: GOVERNMENT ACTION**

29. Have you ever received support from the government in terms of the following? (Tick the one(s) that apply).

- |                   |     |
|-------------------|-----|
| Financial Support | { } |
| Trainings         | { } |
| Subsidies         | { } |
| Purchase orders   | { } |
| Tax incentives    | { } |
| Credit guarantees | { } |
| No support        | { } |

30. Are you aware of any government assisted support institution that provides financial or technical support to SMEs in your industry?

- |     |     |    |     |
|-----|-----|----|-----|
| Yes | { } | No | { } |
|-----|-----|----|-----|

If yes, please specify \_\_\_\_\_

