

## MICRO AND SMALL SCALE ENTERPRISES DEVELOPMENT IN GHANA

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**ABSTRACT:** *Micro and small scale enterprises have been accepted worldwide as instrument of economic growth and development. No wonder that government, particularly in the developing countries has made tremendous efforts and establish policies to enhance the capacity of micro and small scale enterprises (MSEs). However, despite government institutional and policies support to enhancing the capacity of small and medium scale enterprises, small and medium scale enterprises has fallen short of expectations. This, then, generated serious concern and skepticism on whether SMEs can bring about economic growth and national developments in Ghana. SMEs are faced with significant challenges that compromise their ability to function and to contribute optimally to the economy. Most business enterprises in Ghana by classification are grouped under micro and small scale enterprises, hence, the scope of study. The phenomenal growth of small and medium enterprise in Ghana is mainly due to the people's quest to be self-employed and not because it is easy to establish or manage. Financial constraints and lack of management skill hamper the efficient performance of micro and small scale enterprises in Ghana. In view of this, we recommend that government and other non-governmental organization should regularly organize seminars for potential and actual small and medium enterprise operators on how to plan, organize, direct and control their businesses, and that micro, small and medium enterprises operators' should device effective marketing strategies and good management customers relations at all times.*

**KEYWORDS:** MSE, Problems, Prospect, Development, Ghana

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## INTRODUCTION

Perhaps, no other development strategy has enjoyed as much prominence in Ghana's development plans as the Small and Medium Scale Enterprises (SMEs) development strategy. In recent years, particularly since the adoption of the economic reform programme in Ghana in 1983, there has been a decisive switch of emphasis from the grandiose, capital intensive, large scale industrial project based on the philosophy of import substitution to micro and small scale enterprises with immense potentials for developing domestic linkages for rapid, sustainable industrial

development. Apart from their potential for ensuring a self-reliant industrialization, in terms of ability to rely largely on local raw materials, small scale enterprises are also in a better position to boost employ raw materials, small and medium enterprise, are also in a better position to boost employment, guarantee a more even distribution of industrial development in the country, including the rural areas, and facilitate the growth of non-oil exports.

Small scale business started gaining prominence in Ghana in the early 1960s when many personal enterprises started springing up. Before this time, agricultural dominate the economy. There were a lot of agricultural small holding before the emergence of small scale enterprises. Over 70 percent of agricultural holding were managed by the small farmers which comprise mainly family business. Government agricultural holdings were not more than 10 percent. Micro and small scale businesses are catalyst in the socio-economic development of any country. They are a veritable vehicle for the achievement of national macroeconomic objective in term of employment generation at low investment cost and enhancement of apprenticeship training. In Kenya, for instance, Kombo, Justus, Murumba and Makworo (2011), submitted that “micro and small scale entrepreneurs who include agriculture and rural businesses have contributed greatly to the growth of Kenyan economy”. The sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihoods for the majority of low income households in the country accounting for 12-14% of GDP (Republic of Kenya, 1982, 1989, 1992, 1994).

The catalytic roles of micro and cottage businesses have been displayed in many countries of the world such as Malaysia, Japan, South Korea, Zambia, and India among other countries. They contribute substantially to the Gross Domestic production (GDP), export earnings and employment opportunities of these countries. Micro and small scale enterprises (MSEs) have been widely acknowledged as the springboard for sustainable economic development. Apart from the fact that it contributes to the increase in per capital income and output, it also creates employment opportunities, encourage the development of indigenous entrepreneurship, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization that are considered to be critical in the area of engineering economic development (Tolentino, 1996; Oboh, 2004; Odeh, 2005).

Micro and small scale enterprises (MSEs) in Ghana have not performed creditably well and they have not played expected significant role in economic growth. They equally has not influenced apprentice training so as to accelerate employment and poverty alleviation in order to foster Ghanaian economic development. This situation has been of great concern to the government, citizen, operators, practitioners and organized private sectors. With the realization of the potentials of the MSEs, governments at different level in Ghana have put up a lot of support programmes to promote and sustain their development. It is believed that massive assistance; financial, technical, marketing and managerial from the government are necessary for the SMEs to grow. Governments have stepped up efforts to promote the development of SMEs through increased incentive schemes including enhanced budgetary allocation for technical assistance programmes.

Also, new lending schemes and credit institutions such as microfinance and small loans centre (MASLOC) and World Bank-assisted small-scale enterprises loan scheme (SMES) and the Community have been established by individuals and government for the purpose of assisting the MSEs to meet their finance needs. There have also been fiscal incentives, grants, bilateral and aids from multilateral agencies as well as specialized institutions towards making the small and micro business and apprenticeships schemes vibrant. It's of great concern that this vital subsector has fallen short of expectation. The situation is more disturbing and worrying when compared with what other developing and developed countries have able to achieve with their cottage businesses coupled with significant attention to apprenticeship training and employment generate. It has been shown that there is a high correlation between the degree of poverty, hunger, unemployment, and economic well-being of the citizens of countries and the degree of vibrancy of the respective countries micro and small scale enterprises (MSEs). In spite of the fact that micro and small scale enterprises (MSEs) have been regarded as the bulwark for employment generation and technological development in Ghana, this subsector is faced with enormous challenges.

In Ghana, the private sector is also considered as the engine of growth of the economy and mostly made up of micro, small and medium size enterprises, generally called the SMEs. The SMEs Sector in Ghana is estimated to be made up of 70% of all industrial establishments. They contribute about 22% to GDP and account for about 92% of businesses in Ghana and absorb more than 60% of employed labour force with majority in rural areas (GLSS-3, 2002), placing SMEs squarely at the core of the overall economic policy. It is also estimated that 85% of manufacturing employment and to a larger extent overall employment growth in the country comes from the Sector (National Industrial Survey, 2003). This makes the SMEs the most important sector in the Ghanaian economy.

Small and medium enterprises are mostly in managed by owners and relations. The financing in most cases in normally provided by the owners. The owners fail to realize the importance of external source of capital in order affect expansion in the business; in most cases, the by the owner, members of the family and friends in most cases. In another development, small and medium enterprise experiences difficulties in raising equity capital from the finance houses or individuals. Even when the finance house agrees to provide equity capital, the conditions are always dreadful. All these result to inadequate capital available to the sector and thus lead to poor financing. This is the bane of most cottage industries in Ghana.

## **LITERATURE REVIEW**

There is hardly any unique, universally accepted definition of SMEs because the classification of business into small and large scale is a subjective judgment (Ekpeyong & Nyong, 1992). Egbuogu (2003) noted that definitions of SMEs vary both between countries and between continents. The major criteria use in the definitions according to Carpenter (2003) could include various combinations of the following: Number of employees, financial strength, sales value, relative size, initial capital outlay and types of industry.

Inang & Ukpong (1992) however, stressed the indicators prominent in most definitions namely, size of capital investment (fixed assets), value of annual turnover (gross output) and number of paid employees. In countries such as the United States of America, Britain and Canada, small and medium business is defined in terms of annual turnover and number of paid employees. In Britain, for instance, a small and medium business is defined as that business with an annual turnover of €2 million or less with fewer than 200 paid employees. The Research institute for Management Sciences, University of Delft, The Netherlands, has classified businesses into four groups and defined small-scale industry as one employing 10 – 99 persons in which the Manager personally performs all the functions of management without actually taking part in the production.

Stanley and Morse (1965) stated that post World War Japan defines small and medium enterprises as one either having capital not exceeding Y50m or having not more than 300 employees in manufacturing industry, and either having capital not greater than Y10m or having not more than 50 employees in commerce and service sectors. They further reported an Indonesia Agency for Small and Medium Enterprises as defining small scale enterprises to mean all enterprises, household or cottage, employing less than 10 full time workers and not using motive power or machinery, and medium sized industry as one employing between 10 – 50 workers and using motive power. From the point of view of quantitative measure, the Indian official version defines small scale industry as comprising manufacturing enterprises with investment in plant and machinery not exceeding 750,000 Rupees. In the definition, employment was emphasized, thus reflecting India's preoccupation with problems of scarcity of capital and unemployment.

In Ghana, the definition of SMEs also varies from time to time and according to institutions. The Ghanaian Government has used various definitions and criteria in identifying what is referred to as micro and small sized enterprises. At certain point in time, it used investment in machinery and equipment and working capital. At another time, the capital cost and turnover were used. However, the Ministry of Trade and Industry, under whose jurisdiction the micro and small sized enterprises are, has adopted a somewhat flexible definition especially as to the values of installed fixed cost. The Statistical Service of Ghana (SSG) which published the industrial statistics defined small scale industries as those employing 29 employees or fewer, the rest are all considered as medium and large-scale enterprises. According to the Venture Capital Fund Act 2004 (Act 680) in Ghana, an SME is an industry, project, undertaking or economic activity which employs not more than 100 people and whose total asset base, excluding land and building, does not exceed the cedi equivalent of \$1 million in value. Also, according to the records of the Registrar General's Department in Ghana, about ninety percent (90%) of registered companies are SMEs. Data from the Social Security National Insurance Trust (SSNIT) supported this assertion as it shows that 90 percent of companies employ less than 20 persons.

The National Board for Small Scale Industries (NBSSI) describes Micro and Small Enterprises as those enterprises employing 29 or fewer workers. Micro enterprises are those that employ between 1-5 people with fixed assets not exceeding USD 10,000 excluding land and building. Small enterprises employ between 6 and 29 or have fixed assets not exceeding USD 100,000 excluding land and building. The National Board for Small Scale industries (NBSSI) further classified SMEs

as follows: Micro enterprise: less than 5 employees; Small enterprise (6 – 29) employees; Medium enterprise (30 – 99) employees; and Large enterprise (100 and more) employees.

### **Types of Micro and Small Scale Enterprise**

Fasua (2006) categorized business that fall under small and medium scale as follow in small scale enterprise, firewood supply, packaging of food items, meat retailing, plantain production, restaurant service, small scale poultry raising, rabbit raising, organizing labour squad, operating a nursery for children, home service, arranging food for parties and host of others. Business grouped under medium scale according to Fasua are: soap production, aqua-culture/fish farming, chalk making, foam production, nylon production, concrete block production, hair/body cream productions, chemical production, commercial poultry, professional practice law, accountancy, education, food and beverage production among others.

### **Rationale for Emphasizing Micro and Small Scale Enterprise in Ghana's Industrial Development**

Fabayo (1989) observed that one major claim for focus on SMEs is that they are large employers of labour and this makes them vital in coping with the problems of unemployment and poverty. According to him, strong evidences based on country and regional experiences exist to show that small firms are major source of employment opportunities for a wide cross-section of the workforce: the young, old part-time workers and the cyclically unemployed. Meyanathan (1994); Ukpabio (2004) and the World Bank (2001), agreed that it is micro and small scale enterprises (MSEs) that play intermediate role in the development of large scale enterprises. They reduce regional disparities through the creation of employment opportunities in the rural areas and mobilize local resources more readily than large-scale industries.

Churchill (2013) opined that micro and small scale enterprises (MSEs) contribute to national development by positively influencing the distribution of income both in functional terms, wages and profits in nominal terms. Focus on SMEs help to decentralize industries thereby not only accelerating rural development but also stemming urban immigration and the consequent problems of congestion in the cities.

Another rationale for focus on micro and small scale enterprises (MSEs) is its contribution to value added in the manufacturing sector and to the Gross Domestic Product (GDP) of the economy. Numerous country studies have shown that the value-added contribution of SMEs can be quite substantial for example small firms in the U.S. economy in 1978 accounted for 37% of the GDP, SMEs have also the potentials for contributing to export promotion as is the case in some developed countries where industrial exports are drawn from the small firms producing textiles, electrical goods, clothing, leather and ceramic products etc.

Micro and small scale enterprises (MSEs) have been found to have locational flexibility. From the study conducted by Churchill (2013), he noted that MSEs could be more readily used to achieve industrial dispersal and regional balance in economic development. Of particular importance is small firms' usefulness in the diversification of the industrial structure and for the transformation of the rural economy.

Another outstanding contribution of modern small business is its influence on the contribution to the competitive price structure. The large number of small firms forms a broadly based variety of piece enterprise firms, providing a near perfect competitive situation. In this way, small businesses act as a natural antidote to the price formation of large and powerful monopolistic or oligopolistic conglomerations. Economists have in addition to the above reasons for the attractiveness of small firms, identified specific advantages associated with small-scale enterprises.

### **Problems of Micro and Small Scale Enterprise (MSEs)**

Baumback (1983) contend that most of problems of small and medium scale enterprises including manufacturing ones are external to it. According to Baumback among the more important of these external or environmental factors are those related to capital shortage, taxation and regulations, product liability patent and franchising abuses. These are discussed:

*Lack of Basic Infrastructure:* The micro and small scale enterprises (MSEs) sector Ghana operates in an environment with very poor infrastructure which constitutes a barrier to entry and hinders international competitiveness. In many States in the country, nonexistent of infrastructure, inability to access market, communication, power, water etc. prevent development of micro and small scale enterprises (MSEs).

*Access to Financing:* Lack of short, medium and long term capital, inadequate access to financial resources and credit facilities affect the growth of micro and small scale enterprises (MSEs).

*Capital shortage:* The author observes that micro and small scale enterprises (MSEs) have serious financial problem in at least three respect of: (a) Securing funds in small amount at rates comparable with those paid by large industries. (b) Building and manufacturing adequate financial reserves and (c) Securing long term equity capital.

*Inflation:* Despite the fact that cost of capital is higher for the small scale manufacturer, the effect is even compounded by raising inflation rate as well as exchange rate depreciation

### **Challenges in Facing Micro and Small Scale Enterprises in Ghana**

There are various challenges facing micro and small scale enterprises in Ghana; while some are financial others are non-financial. The financial constraints include those factors that prevent micro and small scale enterprises (MSEs) from accessing funds easily, inadequate sources and supply of funds has been a major setback to the realization of many brilliant business ideas and outward expansion of existing business. The inability of the small business owners to raise funds expand their business has been linked to poor business history, high risks, associated with starting new business, which banks tend to avoid, insufficient collaterals, inadequate record keeping and knowledge of the risks facing their business..

Record keeping is particularly important to the integrity of the business. The prevailing corrupt tendency in Ghanaian society, which has permeated the fabric of the society including Ghanaians entrepreneurs, have prevents most small and medium enterprises operators from keeping adequate records. Many entrepreneurs avoid paying tax into the relevant authorities. Poor governance structure is another factor preventing small and medium enterprise to access funds easily from banks and other specialized financial institution. An industrial analysis recently observed that one

of the reasons why micro and small scale enterprises (MSEs) funds has not been invested, is the operator prefer to get the funds as loan, rather than as equity contribution.

To gain access to finance, micro and small scale enterprises (MSEs) owner should learn to put up realistic business plan supported with financial projections, which highlight the profitability of the enterprises before they seek for funds. Such companies should be duly and legally registered with appropriate authorities maintain financial records and put in place strong internal control mechanism. Above all, the operators should be knowledgeable about the kind of business they want to venture into.

### **Recent Policy of SMEs Promotion in Ghana**

The important role MSMEs play in the socio-economic development of Ghana cannot be over emphasized. MSMEs are imperative in achieving economic growth and development. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. In the developed industrial economies, it is the SME sector rather than the multinational companies that is the largest employer of workers (Mullineux, 1997).

In Ghana, the National Industrial Census (NIS) report estimated that 70% of all industrial establishments are in the Small and Medium Enterprises Sector (GSS, 2003) and contribute about 22% to GDP as well as account for about 92% of all businesses in Ghana. It is also estimated that 85% of manufacturing employment and to a larger extent overall employment growth in the country comes from the Sector. The sector contributes significantly to overall export earnings from the non-traditional exports sector and creates jobs at relatively low capital cost. SMEs thus have a significant contribution to make to Ghana's socio-economic development and growth, and the attainment of its middle income status of \$1,000 per capita per annum by the year 2015 (<http://www.msmemoti.org/index.htm>). Interest in the role of SMEs in the development process continues to be in the forefront of policy debates in most countries. Governments at all levels have undertaken initiatives to promote the growth of SMEs (Feeney and Riding, 1997).

A recent policy to promote the growth of SMEs in Ghana was contained in the 2005 report of the second Growth and Poverty Reduction Strategy (GPRS II 2006 - 2009) now Ghana Shared Growth Development Agenda, 2010-2013 framework. The overarching objective of policy was to engender sufficient economic growth that will propel Ghana into a middle-income economy by 2015. To achieve this objective, the driving force of economic growth was the promotion of the private sector competitiveness. It was under this broad strategic goal that the enhancement of SMEs performance falls.

According to a report from the OECD (2006), the SME was showing positive signs of response to this reform. Similarly, the World Bank/IMF's annual Doing Business Report (2008) has ranked Ghana as a top ten (10) global reformer for two years in a row (2006 and 2007). In addition, Ghana's economic policy on business models has been geared towards divestiture of state-owned enterprises and more of private ownership.

A number of institutions, both public and private have been established with the aim of facilitating the growth of the general industrial sector which includes the SMEs. The institutions include the

National Board for Small Scale Industries (NBSSI), the Association of Ghana Industries (AGI), EMPRETEC-Ghana Foundation, the Ghana Export Promotion Council (GEPC), the Private Enterprises Foundation (PED) and NGOs both local and international. These promotional institutions provide specific assistance to the SMEs which include Training, Central organization to protect the interest of industry, facilitation of industrial related information, entrepreneurship development, the promotion of exports of goods made in Ghana and Business Advisory Services as well as linking them to financing institutions for credit facilities.

### **The Role of Bank of Ghana and other Government Programs**

The Bank of Ghana's history of promoting the financing of Micro, Small and Medium Enterprises (MSME) began from the Credit Guarantee for Small Borrowers scheme in 1969 that was administered through the Development Finance Department of the Bank. The Bank was further instrumental in administering the IDA-financed Fund for Small and Medium Enterprise Development (FUSMED) Project, and also with the Private Enterprise and Export Development (PEED) Project, as well as other direct projects that were ended after Bank of Ghana (BoG) decided to focus on its core areas of operation. Currently, BoG is actively participating in the Rural Financial Services Project (RFSP).

This project was supported by donors such as the International Development Agency (IDA) of the World Bank, the International Fund for Agricultural Development (IFAD), and the African Development Bank (AfDB). It is aimed at broadening and deepening financial intermediation in rural areas through measures such as; Capacity Building of the Informal Financial Sector, Capacity Building of Rural and Community Banks, and the establishment of an Apex Bank for Rural Banks in Ghana. Generally, the range of players in providing financing facilities for the MSME sector is shown in Table 1 below.

**Table 1: Credit Flow to Micro Enterprises and SMEs in Ghana**

<b>Source</b>	<b>Examples of Schemes</b>
1. Financial Institutions	Major Banks, Rural banks, Community banks, non-bank financial Institutions, etc.
2. Donor/Government Credit Schemes	GRATIS, FUSMED, NBSSI schemes
3. Donor-Assisted SME Loan Projects	IFAD, DANIDA, CIDA, FAO, USAID etc.
4. Informal Financial NGOs, Credit Unions	Sinapi Aba Trust, CARE International etc.
5. Government Schemes	BAF, SIF (Micro-Finance Capitalisation), Poverty Alleviation Fund (PAF), EDIF, MPSD and PSI schemes, MOTI, MASLOC,

Source: Compiled from various sources

From 1990, support for micro, small and medium enterprises was intensified with the establishment of the National Board for Small-Scale Industries (NBSSI). In 1991, the NBSSI was merged with the Ghanaian Enterprises Development Commission (GEDC) and this made the



NBSSI to take over the functions of the latter in particular the delivery of credit to small scale entrepreneurs. Its main financing window was a USD30 million Fund for Small and Medium Enterprise Development (FUSMED), which was provided under the World Bank's small and medium enterprises project and managed at the Bank of Ghana. The fund offered credit to enterprises in all sectors of the economy except primary agriculture, real estate and trading. However the repayment performance turned out to be less than satisfactory.

Currently, the projects that are on-going for the MSME sector include the Financial Sector Improvement Project, Financial Sector Strategic Plan (FINSSP), the Rural Financial Services Project (RFSP), the United Nations Development Programme (UNDP) Microfinance Project, the Social Investment Fund (SIF), the Community Based Rural Development Programme (CBRDP), Rural Enterprise Project (REP), and Agricultural Services Investment Project (ASSIP). A recent impact assessment of the plethora of MSME financing programs that have been implemented across the country suggests that significant challenges remain in ensuring the effectiveness of MSME programs. The study found that access to finance was a significant problem for MSMEs, even though other problems such as low cash flow, energy, high cost of non-labour inputs, increasing competition, and high cost of credit were also cited. The next section outlines some of the remaining challenges facing the microfinance sector in Ghana.

## **RESEARCH METHODOLOGY**

### **Research Design and Sample Size**

The study used a survey to evaluate the impact of risk management strategies on micro finance institutions' financial sustainability. The design was adopted because of its appropriateness in describing the current situation of phenomenon (Kothari, 1990). The population of study includes all micro and small scale business operators operating in Ghana. Nwankwo (1999) noted that the population of any research study is the universe of such group; of people or object which a researcher is interested. In order to obtain our sample size from the population, we had recourse to selected micro and small scale business operators from selected locations in Accra, Ghana and through a random sampling exercise had 10 districts, municipal and metropolitan assemblies selected for the study. We had in these selected areas obtain a sample elements of 100 respondents which also means 10 respondents (i.e. micro and small scale business operators) from each selected area through a probabilistic sampling techniques. Our primary data were acquired through the use of questionnaire, personal observation and interview.

### **Research Instrument and Technique**

The primary instrument used for gathering data for the study is the questionnaire. The questionnaire were designed in open and close ended patterns and administered directly on the operators of the micro and small scale enterprises directly. Furthermore, in order to ensure a reduced possibility of questionnaire missing in transit or misplaced the questionnaires were retrieved in same manner, which they were administered. The data so obtained were presented in tables and analyzed using non-parametric simple percentages and Z-test statistical technique was apply in order to confirm the stated hypotheses.

### Validity and Reliability of Research Instrument

The validity of an instrument refers to the extent to which it measures what was intended to measure. The validity of the scales utilized in this study was assessed for content and construct (convergent) validity. The correlation among the components of the performance scale and correlation among components of the market orientation constructs provide evidence of convergent validity to the extent that they are high, that is they are converged on a common underlying construct. After the survey had been completed the reliability of the scales was further examined by computing their coefficient alpha (Cronbach Alpha). All scales were found to exceed a minimum threshold of 0.7 suggested by Nunnally (1978).

### Research Findings and Analysis

In the course of this study 100 questionnaire were distributed to micro and small business operators in their business centers in order to elicit the problems and prospects of small and medium in Ghana vis-à-vis the efforts of the government on the development of the enterprises. Overall, the contribution was obtained from micro and small business operators' respondents operating within the greater Accra region. A total of 90 of the questionnaire were returned out of which 85 was found to be valid and useful for our study. This represents 85% which is good enough, as it is reliable and generalizable. The questionnaire was analyzed after which the stated hypotheses were further analyzed for confirmations.

### Research Hypotheses Testing

Our hypothesized statements were tested using the Z-test statistical tool as earlier stated. The tests conducted at 95% confidence interval and 0.05 significant levels. Following the decision rule of accepting or rejecting null hypothesis i.e. if calculated Z is less than the critical value (1.96), we accept, if not we reject, we thus hypothesized as follows;

*H<sub>01</sub>: The phenomenal growth in the number of micro and small enterprises is not due to quest for self-employment*

### Analysis of hypothesis One-Table 2: Factors responsible or phenomenal growth of small and medium enterprise

	Factors	Frequency	Percentage
a	Married	24	28.2
b	It is profitable	76	89.4
c	It is cheap to establish and easy to manage	10	11.8
d	It is always patronized	85	100
e	Others (specify)	72	84.7

Source: Field Survey 2014

The calculated Z= 14.38 is greater than the critical Z = 1.96. We thereby reject the null hypothesis, in order words; the phenomenal growth in the number of micro and small enterprises is due to quest for self-employment well accepted in Ghana.

*H<sub>02</sub>: Financial constraint is not a serious factor militating against effective management of small and medium enterprise.*

**Analysis of hypothesis Two-Table 3: Problems of setting up Small and Medium Enterprise**

	Problems	Frequency	Percentage
a	Lack of capital	45	52.9
b	High cost of procuring operational equipment and facilities	15	17.6
c	Costliness of items	10	11.8
d	Scarcity and costliness accommodation	5	5.9
e	Official requirement	-	-
f	Others (specify)	10	17.6
	Total	85	100

*Source: Field Survey 2014*

In testing this hypothesis, Table 3 was drawn. It was discovered that the calculated  $Z= 4.18$  is greater than the critical  $Z = 1.96$ . This therefore made us to reject the stated hypothesis, that is, financial constraint is a serious factor militating against effective management of small and medium enterprise in the Ghana business environment. This finding was supported by literature and further buttressed in our discussions of findings.

*H<sub>03</sub>: Lack of management skill does not hamper the efficient performance of micro and small enterprise in Ghana.*

**Analysis of hypothesis Four -Table 4:Problems of Managing Small and Medium Enterprise**

	Problems	Frequency	Percentage
a	Inadequate financing financial constraint	85	100
b	Lack of managerial skill	63	74.1
c	Lack of business ideas	65	76.5
d	Poor environmental sanitation	72	84.7
e	Lack of efficient preservation system	52	61.2
f	Others (specify)	73	85.9

*Source: Field Survey 2014*

Table 4 has proved our stated hypothesis to be wrong by revealing that, the calculated  $Z= 4.4$  is greater than the critical  $Z = 1.96$ . at a degree of freedom of 4. In view of this result, we hereby reject the stated hypothesis it thus, means that lack of management skill hampered the efficient performance of micro and small enterprise in Ghana.

## DISCUSSION AND CONCLUSIONS

The result of our research work as regards micro and small enterprises in Nigeria revealed that there has been a phenomenal growth in the number of small and medium ventures for past few years. According to table 2, 89.4 percent attributed the phenomenal growth of small and medium enterprise to its profitability while all of them also attributed it to the clamor for self-employment

and 80 percent attributed it to its regular patronage. 84.7 percent ascribe it to some other reasons which among other things include; non-requirement of expertise knowledge to operate. Non requirement of technical skill through this is necessary the possibility of operation in the absence of infrastructural facilities etc. SMEs, today, represent about 90 percent of firms in the Ghanaian industrial sector on numerical basis. This is attributing to profitability of the venture, quest for self-employment, easy to management and high patronage. But the performance and effectiveness of small and medium scale enterprises in Ghana has been perpetually low despite government institutional and policies support to enhancing the capacity of the enterprises.

The result of the empirical analysis goes to prove that small and medium scale enterprises growth in Ghana has been prevented by structural and environmental challenges. Fatai (2011) posits that, small and medium scale enterprises in Ghana have performed at very abysmal level when compared with other countries. This low performance has further exacerbated poverty, hunger unemployment and low standard of living of people in a country whose economics is ailing. Fatai (2011) suggests that central government should enhance the capacity of its SMEs in order to achieve her millennium development goals by 2015. Aruwa (2011) as corroborated by our study argued that government has identified the need for the development of Small and Medium Scale Enterprises (SME). One of such sectoral strategies is the introduction and pursuit of policies such as concessionary financing to encourage and strengthen the growth of SMEs in Ghana. Also, the disbursement of SME's fund have significantly improved the portfolio of funds to SMEs causing absolute increase in total credit by commercial banks from 9.7% (2000) to 32.9% in 2002. In the course of the investigation, we discovered that the problem of establishing small and medium ventures include the lack of capital, operating equipment, poor business environment, the scarcity of accommodation on the other hand, the inherent problem in managing small and medium business ideas, lack of efficient preservation system and poor environmental sanitation lowered the sudden growth of the enterprises in Ghana.

Table 3 revealed that 70.5 percent of the respondents indicate that lack of capital and high cost of procuring operational equipment and facilities are problems militating against the establishment of small and medium enterprise in many states in Ghana. 11.8 percent indicated costliness of materials while 5.9 percent indicated scarcity and costliness of accommodation. 17.6 percent indicated other problems. These include lack of financial support from the government and financial institutions, seasonal fluctuation in the availability of local goods among others. Lack of capital has been identified as the most serious problems of establishing small and medium enterprise is lack of capital as other problems can be solved with capital. These are in tandem with observations of Onugu (2005) cited in Fatai (2011) that some of the challenges of the SMEs are induced by the operating environment such as (government policy, globalization effects, financial institutions etc) others are functions of the nature and character of SMEs themselves. Fatai (2011) added financial constraints, lack of infrastructural facilities, government unfavourable fiscal and monetary policy inconsistencies, and internal characteristics and problem of SMEs. Then government should make tremendous effort in ensuring that these challenges are tackled. The establishment of support institutions and relief measures, initiation of regulatory and preferential laws and the economic reform putting SMEs at the centre objectives are some of the palliative

measures already considered by the government for the development of micro and small scale enterprises in Ghana.

Conclusively, the phenomenal growth of micro and small scale enterprise is mainly due to the people's quest to be self-employed and not because it is easy to establish or manage. The increasing demand for consumer products creates a large market for SMES and this added to improving business environment and government commitment to promoting small and medium business enterprises provided bright future prospects for small and medium enterprise

## RECOMMENDATIONS

Based on the findings of the study, we recommend as follows; that government should re-introduce the small business credit scheme so that beneficiaries can use them to run the micro, small and medium enterprises. Government, chamber of commerce and other non-governmental organization should regularly organize seminars for potential and actual small and medium enterprise operators where they should be educated on how to plan, organize, direct and control their businesses. Micro, small and medium enterprises operators' should device effective marketing strategies. This includes such promotional strategies as advertising, good management customers relations at all times. There should be re-introduction of soft loans for small and medium business by the government and financial institutions. Finally, the quality and quantity of micro, and small scale enterprises products should be high at all times. This will attract more customers. Besides, operators should exploit ways of producing at low costs and selling at relatively low price. This will make demand to be high always.

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