Business development services and small business growth in Ghana

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Abstract

The role of small businesses in terms of job creation, market competitiveness, innovation and the promotion of industrial development has been recognised by both academics and policy makers (Beck et al., 2005; Thurik and Wennekers, 2004, Ayyagari et al., 2003; Davidsson and Henrekson, 2002). This is evident in the number of initiatives that many governments undertake for small businesses and the increased academic interest in researching small business and entrepreneurship. However, the performance of small businesses - whether in the developed or the developing countries has not been encouraging in terms of their survival, competitiveness, and growth when compared with large businesses.

Despite the numerous initiatives and the huge amount of the taxpayers' money used to support the various schemes, academic research has lagged behind the amount of resources invested into those schemes (Storey, 2000). This study aimed at contributing to the growing knowledge of the field and to influence policy initiatives particularly in Africa where comparatively few empirical studies using large scale samples has been undertaken in this area. The objectives of the thesis are to perform a comprehensive large scale assessment of the barriers to growth in Ghana; to provide a quantitative based analysis of the use and impact of external business advice in Ghana, including the full range private and public sector suppliers; to assess the range of services and satisfaction of users of NBSSI and Empretec, the main public and private sector based organisations for the supply of business advice in Ghana; and to assess the determinants of growth in Ghana, including whether there were any associations between the use of business advice and growth.

The thesis involved a survey 500 owner-managers located in six regions of Ghana who employed between 4 to 50 workers. The overall findings with regard to the barriers to growth chapter demonstrated that the availability of resources (both capital and human) influenced the business susceptibility to barriers to the attainment of business objectives. For the use and the impact of business advice on the performance of the business, the study revealed that the use of business advice particularly, professional specialists (accountants, solicitors, and banks) and markets and supply chain networks was positively related to the size of firm, firm growth, export involvement, innovation, urban location and the educational qualifications of the owner-manager. For the determinants of small businesses growth, this study has demonstrated that the size of the business is one of the most consistent factors in determining the growth of small businesses although medium-sized businesses appeared to grow faster than the micro-and small-sized businesses.

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Acronyms

ADF	African Development Foundation
SPEED	Support Programme for Enterprise Empowerment and Development
CIDA	Canadian International Development Agency
DFID	Department for International Development
DANIDA	Danish International Development Assistance
GTZ	German Technical Cooperation
GIIPIC	Ghana Integrated Industrial Policy for Increased Competitiveness
GPRS	Ghana Poverty Reduction Strategy
GRATIS	Ghana Regional Appropriate Technology Industrial Services
ITTU	Intermediate Technology Transfer Unit
MOTI	Ministry of Trade and Industry
PNDC	People National Defence Council
GEPC	Ghana Export Promotion Council
GEDC	Ghanaian Enterprise Development Commission
NLC	National Liberation Council
CPP	Convention People Party
BAC	Business Advisory Centre
IFC	International Finance Corporation
APDF	African Project Development Facility
NGO	Non-governmental organisations
NBSSI	National Board for Small- Scale Industries
SIDO	Small Industries Development Organisation
BDS	Business development services
EDIF	Export Development and Investment Fund
TEC	Training and Enterprise Council
AGI	Association of Ghana Industries
PEF	Private Enterprise Foundation
ERP	Economic Recovery Programme
GCE	General Certificate of Education
R & D	Research and Development
ISSER	Institute of Statistical, Social, and Economic Research
DBM	Deposit Money Banks
CIS	Community Innovation Survey
SAP	Structural Adjustment Programme
FAGE	Federation of Association of Ghanaian Exporters
CEPS	Customs Excise and Preventive Service
GEDPRO	Ghana Enterprise Development Project
PAMSCAD	Programme of Action to Mitigate Social Consequences of Adjustment
DTI	Department of Trade and Industry
TEC	Training and Enterprise Council
EAS	Employment Agency Service
SBDC	Small Business Development Corporation
UNDP	United Nations Development Programme
UNCTAD	United Nations Conference on Trade and Development
JSS	Junior Secondary School
IFAD	International Fund for Agricultural Development
USAID	United States Agency for International Development
EGF	Empretec Ghana Foundation
ADF	African Development Fund

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Finally, I would like to thank all of the small businesses and the service providers in Ghana who participated in the survey.

Declaration

I certify that the material contained in the thesis has previously not been submitted for a degree in this or any other university.

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Bernard Acquah Obeng

Statement of copyright

Chapter 1

Introduction

1.1 Introduction

The purpose of this thesis is to provide an empirical based study of the level of use and the impact of external business advice in Ghana; an understanding of the barriers to growth and the determinants of growth, and the association between the use of business advice and the growth of small businesses in Ghana. This will provide an accurate picture of the state of business advice and growth of businesses in Ghana and how government policies may need to be altered to better meet the needs of small and medium sized enterprises.

The role of small businesses in terms of job creation, market competitiveness, innovation and the promotion of industrial development has been recognised by both academics and policy makers (Beck et al., 2005; Thurik and Wennekers, 2004; Ayyagari et al., 2003; Davidsson and Henrekson, 2002; Storey, 1994). In many developed countries the importance of small businesses to the economy is apparent in the proliferation of initiatives that the governments have implemented which are designed to support the small business sector. For instance, the UK government policy on small business development has been focused on growing businesses (Audretsch and Thurik, 2004; Johnson et al. 2000). Similarly, Getz and Petersen (2005: 220) also reported that the EU member countries' small business support programmes appeared to focus on growth and job creation approach. In the rapidly developing countries such as India and South Korea, the potential value of small businesses has been appreciated. In Africa, the potential role that small businesses could play in terms of poverty reduction, job creation, and fostering entrepreneurship has been recognised by policy makers (McPherson, 1996; Trulsson, 2002; Chipika and Wilson, 2006).

Notwithstanding the potential role that small businesses could play in terms of economic development (Ayyagari et al., 2003; Botham, 2004; Thurik and Wennekers, 2004), the performance of small businesses - whether in the developed or the developing countries has not been encouraging in terms of their survival, competitiveness, and growth when compared with large businesses (Mead and Liedholm, 1998; Bates, 1990). In African countries the poor performance of small businesses contribution to gross domestic product has been attributed to the neglect of the sector during the colonial rule and the governments that took over the internal administration of the countries immediately after independence (Rogerson, 2001; Asante et al., 2000).

Following the success stories of the South East Asian countries such as South Korea, Hong Kong, and Taiwan, many African governments since the 1970s have initiated various policies and programmes with the aim of promoting small business growth. In most cases, these programmes have received the support of both bilateral and multilateral donors (McPherson, 1996). Today, many governments spend tax payers' money to provide various supports to small businesses. For instance, Wren and Storey (2002: 334) reported that the UK government investment in the provision of advisory services to small businesses through the Business Link was estimated at £650 million per annum while in Sweden the public investment in the provision of advisory services to small businesses was estimated to 'absorb between 7-8% of the net industrial cost'. Beck et al. (2005) reported that the World Bank Group provided more than $10 billion from 1998 to 2002 and about $1.3 billion in 2003 for small businesses support programmes in developing countries.

Despite the numerous initiatives and the huge amounts of the taxpayers' money used to support the various schemes, academic research had lagged behind the amount of resources invested into these schemes (Storey, 2004) and the situation is worse in the African context. Indeed, despite interest in the proliferation of external business services, and a desire for more understanding of the growth of businesses there has not been a large-scale survey of Ghana which has encompassed the complete range of external advice sources. In other words, there has been no study which has included public and quasi-public intermediaries as well as private sector market suppliers, nor has there been an assessment of the relationships between business or the entrepreneurs' characteristics and the use and impact of external advice. Nor in the Ghanaian context has there been an empirical study which used a large scale survey and multivariate analysis to look at the factors which hinder the growth of businesses, or the factors associated with the growth of businesses in Ghana. Similarly, there is a lack of research which brings together these two sets of topics – relating to business advice and the growth of businesses.

Also, within the study of external business advice and SMEs in Ghana there has generally been an absence of a comprehensive multivariate approach that simultaneously controls for all the main explanatory factors that may influence the use and impact of business advice. Furthermore, most previous studies have tended to focus on small samples and only a limited range of advice sources. This study explores relationships using crosstabulations and then uses logit estimation techniques to examine the effect of systematic client differences on the utilisation of external business advice by source. In the estimation of the impact of advice ordered logit techniques are used, because the dependent variable is ordinal, i.e. a perceived impact of 4 cannot usually be thought to be twice as high as a perceived impact of 2.

Good economic performance by SMEs is actively encouraged by policy makers in Ghana and is reflected by the wide range of government backed sources of advice such as NBSSI and Empretec and other central government support schemes which have a much more focussed SME client in mind. Using econometric analysis this dissertation seeks to explore the relationship between SME growth and performance with the use of external advice. A wide range of measures can be used such as SME employment growth, turnover growth and also profitability. Whilst policy makers are predominantly concerned with employment growth, other measures such as profitability are of greater concern to the owners and managers of SMEs. When the fieldwork for the thesis was undertaken entrepreneurs in Ghana were very willing to talk about growth and to provide information upon employment growth, but they were unwilling to provide information upon profitability or turnover. This reluctance represented a cultural barrier in Ghana and the fear that information upon turnover and profitability would be conveyed to the authorities and the government in Ghana.

This thesis seeks to fill these gaps using new information from a 2005 survey focused upon SMEs of up to 50 employees. The empirical results relate specifically to Ghana; however, it should be possible to apply the conclusions to other Sub-Saharan countries.

The Survey of Entrepreneurship in Ghana was a large scale survey which was completed by the owner-managers. The fieldwork was undertaken in the first half of 2005. The author was entirely responsible for the design of the questionnaire. In total, data were gathered directly from 500 owner-managers located in six regions of Ghana between January and June, 2005. The author designed the sample structure, the visiting of business premises to administer the questionnaires, and was also responsible for the coding-up of the results. The Survey is described in greater detail in chapter 4.

To complement the information gathered from the owner-managers, seven service providers' organisations were also interviewed by the researcher. In addition to the primary data gathered, an extensive review of the literature was also undertaken on the barriers to small businesses growth, the use, satisfaction and the impact of external advice on small businesses growth, and the theories and empirical findings of small businesses' growth. The analysis of the quantitative data gathered was undertaken by the use of Statistical Package for the Social Sciences (SPSS).

1.2 Thesis structure

The study consists of ten chapters. After the introduction, Chapter 2 examines the problems face by the small businesses in Africa with particular reference to Ghana and compared with the problems faced by small businesses in the UK. Furthermore, the range of definitions of small businesses is also examined.

Chapter 3 reviews the literature of external support services to small businesses with more emphasis on the business advisory services and their classifications. The chapter also reviews the literature of the debate on government intervention of small businesses support services. The sources and the factors that influence the demand for external support services are also discussed in this chapter. Furthermore, the impact of the use of external advice on small businesses performance is examined. Finally, the chapter examines the small business development policies in Ghana since independence.

Chapter 4 focuses on the theories of small businesses growth. First, the importance of growing businesses to the economic development is discussed. This is followed by the various theories that explain the growth of small businesses. Methods of measuring small businesses growth are also discussed in this chapter while the literature of empirical evidence of the determinants of small businesses growth is reviewed.

Chapter 5 details the methodology used in the rest of the thesis and the data set and methods employed. The Survey of Entrepreneurship database and the main methodological issues associated with this thesis are discussed in chapter 5.

The empirical contribution of the thesis is developed in chapters 6 to 10. Several of the chapters have been re-written as journal papers. A paper has been accepted in Small Business Economics using the results in chapter 6. A paper is being revised and resubmitted to Environment and Planning: C using chapter 7. Another paper is under review with Cambridge Journal of Economics, and this also used material from chapter 7.

The empirical analyses in chapters 6, 7, 8 and 9 look at: the barriers to growth; the use and impact of external advice; the use and satisfaction of individual services of NBSSI and Empretec; and, the determinants of growth in Ghana. In each of these chapters the variables which are included in the multivariate analysis are: the age, size of the business, as well as a series of dummy variables which measure whether the firms are exporters/non-exporters, are innovators, and whether the owner-managers are male or female.

The empirical analysis begins in chapter 6 with an investigation of the factors which have hindered the entrepreneurs' ability to meet their business objectives over the three previous years, 2002-2005. The results were analysed using bivariate and multivariate regression techniques, but because of space constraints only the multivariate regression results are reported.

The theoretical basis of chapter 7 and also chapter 8 is network theory. Network theory is analysed at the beginning of chapter 7. The empirical analysis continues in chapter 7 with an investigation of the extent of use and impact of external advice for the full range of providers of advice. Thus the chapter provides an assessment of the private sector and the public sector sources of advice to gauge the levels of use and the satisfaction with each of the providers. Policy lessons for SMEs and government will be drawn from the results.

Chapter 8 explores the use and impact of users of the NBSSI and Empretec business support schemes. That is to say, for those two support schemes the survey included questions to measure the individual services which were used and the entrepreneurs' assessments of the quality of the services used. Because the users of NBSSI, and also the users of Empretec are sub-samples of the whole sample we are able to evaluate the NBSSI and Empretec schemes relative to private and public sources of advice. An additional feature of the survey was the retention of a set of questions which established the reasons behind the use of NBSSI and Empretec. The background, history and development of the main government and quasi-government supported schemes are explained in chapter 3.

Chapter 9 examines the determinants of small businesses' growth in Ghana. Multivariate regression techniques look at the association between the characteristics of the businesses, the owner-managers, and geographical location and employment growth for each of the three sectors examined: manufacturing, services and agriculture. The models were then re-estimated incorporating the use of external business advice to explore whether there is any association between the use of external business advice with employment growth. In these regression models the analysis is focussing upon associations as it is extremely difficult to unambiguously establish the causality of the relationships explored. Then Structural Equation Modelling (SEM) techniques are employed to better take into account the multiple directional nature of our modelling of growth against the characteristics of the business, the owner-manager, the use of business strategy and business advice. The SEM are run using the AMOS statistical package.

Lastly, chapter 10 draws together the main empirical results and relates these to our objectives. The last chapter indicates the contribution to knowledge of the dissertation and outlines to policy makers and to SMEs the main changes which need to be made to foster growth, and in the provision of external business advice. This last chapter outlines the limitations of the thesis and also suggests implications of this study for future research.

1.3 Conclusion

In this study, the terms owner-manager and entrepreneur are used interchangeably because the survey used Gartner's (1988) definition of an entrepreneur – the creation of a new organisation. To be included in the survey respondents had to have created their own business, to manage their own firm, and they (and/or their family) owned the firm.

Despite a debate over their effectiveness, it is clear that SMEs do have an important role in economic growth and development - particularly in newly emerging nations in Africa such as Ghana. Ghana has a wide range of public sector, non-governmental agencies and private sector sources of advice. The main government flagship for local business support organisations is the National Board for Small Scale Industries (NBSSI). Whilst in the private sector the Empretec Ghana Foundation is the main non-governmental organisation which has been set up specifically to assist SMEs in Ghana. Additionally, there are a wide range of other private sector sources which the SMEs can turn to for external advice.

The thesis seeks to perform the first comprehensive large scale assessment of the barriers to growth in Ghana. A second objective is to provide the first comprehensive quantitative based analysis of the use and impact of external business advice in Ghana, including the full range of public and private sector suppliers. A third objective is to assess the range of services and satisfaction of users of NBSSI, and also Empretec, the main public and private sector based organisations for the supply of business advice in Ghana. A fourth objective is to assess the determinants of growth in Ghana, including whether there are any associations between the use of business advice and growth. Fifthly, and lastly it is the objective to synthesise together the main results and to indicate to policy makers how the state of entrepreneurship is hindering business growth, as well as how the provision of business advice needs to be altered in order to better meet the needs of SMEs in Ghana.

Chapter 2

The problems encountered by small business in Ghana

2.1 Introduction

The role of small business in promoting the economic development of a nation has been recognised by both academics and policy makers' alike (Storey, 1994; McPherson, 1996; Mead and Liedholm, 1998; Rogerson, 2001). Although commission after commission (Ghanaian Enterprise Development Commission, 1975; Ghana Business Promotion, Act 1970) have been set up in the past to investigate the problems of small business and to produce workable solutions there have not been any significant beneficial changes in Ghana. Thus, in Ghana and in Africa more generally, the problems which small businesses faced in the 1970s still exist today.

An understanding of the problems faced by small business is of great importance to policy makers in order that public sector money is advantageously spent for the benefit of tax payers and small business alike. For academics, knowing the problems of small business can help shape the direction of their research activities (Huang and Brown, 1999). The need to study and understand the problems faced by small businesses were also highlighted by Trulsson (2002: 332) when he stated that, 'the intention was to gain a better understanding of the problems that these kinds of enterprises encountered so as to be able to develop an intervention that could assist them in creating more and better jobs'.

This chapter examines the problems faced by small businesses in Africa with particular emphasis on Ghana. Problems faced by small business in Britain will also be examined to determine whether they are similar to that of Ghana.

The chapter reviews available literature on problems facing small businesses in general and does not categorise small businesses into groups such as start-ups, growth-oriented or slow/declining businesses.

The structure of the chapter is as follows. Firstly, the range of definitions of small businesses are examined. Secondly, general classifications of small businesses problems are examined. Thirdly, the existing literature of the problems faced by small businesses in Ghana (and Africa) is reviewed. Fourthly, the problems facing small businesses in Britain are compared with small businesses in Africa. Finally, a conclusion completes the chapter.

2.2 Definition of concepts and terms

This section examines the difficulties in establishing a definition of small businesses. There is no acceptable universal definition for small businesses and this has created problems for small business research. The result has been considerable debate which has clarified the issues involved and encouraged researchers to offer the reasoned justification for the definition they adopt (Curran and Blackburn, 2001). Small businesses have been defined in various ways based on researchers' areas of interest and the purpose for which the information is to be used. The main reason is that a small business in one industry or a region becomes a medium business in another industry or region (Storey, 1994). It is very difficult to define a small business in practice although everybody has in mind what they think of a small business. The implication here is that small businesses have certain characteristics which differentiate them from large businesses (Bolton Committee Report, 1971).

Small businesses are widely defined in terms of their characteristics, which include the size of capital investment, the number of employees, the level of turnover, the management style, the location and the market share (Curran and Blackburn, 2001). Curran and Blackburn (2001) grouped the basis of defining small business under quantitative and qualitative headings although the Bolton report grouped small business definitions under statistical and economic headings. Country context plays a major role in determining the nature of these characteristics, especially, the size of investment in capital accumulation and the number of employees (Storey, 1994).

According to Storey (1994) the first major attempt to define small businesses in the UK was the Bolton Committee which was set up in 1971 by the Conservative government of Edward Heath to investigate the state of small firms in Britain. In an attempt to define small businesses, the Bolton Committee Report (1971: 1) noted that 'small firms could not be adequately defined in terms of employment or assets, turnover, output or any other arbitrary single quantity, nor would the definition be appropriate throughout the economy'. The Committee therefore defined small businesses by coining the terms "economic definition" which focused on the characteristics of small businesses and the "statistical definition" which defined small businesses statistically by placing an upper limit on the appropriate measure used for a given trade. The economic definition constitutes three main factors. Small businesses have small market share compared with large businesses, managed by the owner-managers themselves, and independent from other businesses.

The Bolton Committee's Statistical definition also recognised the diversity of the industry and as a result defined small businesses based on the type of the industry, the number of employees, and the turnover or the number of vehicles as shown in Table 2.1 below.

Table 2.1: Definitions of Small Firms in the Bolton Report

	Small firm type	Definition used
1.	Manufacturing	200 employees or less
2.	Construction	25 employees or less
3.	Road transport	5 vehicles or less
4.	Retailing	£50,000 per annum turnover or less
5.	Miscellaneous services	£50,000 per annum turnover or less
6.	Motor trades	£100,000 or less

Note: The following sectors agricultural, hunting, forestry and fishing were excluded.

Source: Bolton (1971)

The Bolton Committee's economic and statistical definitions have been subject to extensive criticisms from a number of researchers (Curran and Blackburn, 2001; Storey, 1994). Storey (1994: 10) criticised Bolton Committee's (1971) "economic" and "statistical" definitions and noted that the Bolton criterion that small business is 'managed by its owners or part owners in a personalised way and may not through a medium of formal management structure is almost certainly incompatible with its "statistical" definition of small manufacturing firms which could have up to 200 employees'. Curran and Blackburn (2001: 13) also observed from the Bolton's committee report that by 'selecting sector-specific definitions, comparisons between sectors becomes difficult'. The most commonly used definition of small business in Europe (Curran and Blackburn, 2001) is the EU official definition which states as follows:

1. Medium-sized enterprises have fewer than 250 employees. Their annual turnover should not exceed €40 million or their annual balance-sheet total should be less than €27 million.
2. Small enterprises have between 10 and 49 employees. They should have an annual turnover not exceeding €27 million or their annual balance-sheet total should not exceed €5 million.
3. Micro-enterprises are enterprises which have fewer than 10 employees.

   Source: Commission Recommendation (96/280/EC) of 3 April, 1996 concerning definition of small and medium sized enterprises (Official Journal L107 of 30.04.1996).

Ayyagari et al. (2003) noted that the current World Bank definition of SMEs refers to micro enterprises as businesses with not more than 10 employees and the total assets of $10,000 and with the total annual sales of not more than $100,000; Small enterprises as businesses with between 10 and 50 employees, and total assets and total sales of up to $3 million; medium enterprises have up to 300 employees, and possess total assets and total sales up to $15 million.

In Africa, various bases (number of employees, turnover, and the value of assets) have been used by policy makers and researchers to define small businesses but the majority of the definitions have been based on the number of employees. In Uganda, a small-scale enterprise is an enterprise or a firm employing not less than 5 but with maximum of 50 employees, with the value of assets, excluding land, building and working capital of less than Ugshs.50 million ($30,000) and an annual income turnover of between Ugshs.10 and 50 million ($6,000-$30,000). A medium-size enterprise is considered a firm, which employs between 50-100 workers (UNCTAD, 2001). Other characteristics have not been fully developed (UNCTAD, 2001). The National Baseline Survey in Kenya (1993) also defined micro and small enterprises in the survey to include businesses employing up to 50 workers. Here employment refers to people working in an enterprise whether they are paid or not. The survey also made a distinction between micro and small enterprises. A micro enterprise is defined here as those enterprises employing up to 10 workers and small enterprises employ up to 50 workers (Parker and Torres, 1994).

In Ghana, there is no official definition of small businesses (Manuh, 1988) although the Ministry of Local Government and Rural Development considers any establishment that employs 1 to 9 workers as small-scale enterprise, 10 to 20 workers as medium-scale enterprise, and above 20 workers as a large-scale enterprise (Amonoo et al. 2003). However, the definition offered by the National Board for Small-Scale Industries (NBSSI) appeared to be the most common used by both policy makers and researchers (Mensah, 2005). A micro business is defined as an enterprise which employed between 1-5 workers with a capital base of up to \$10,000 (excluding land and buildings) and small business employing between 6-29 workers with a capital base of up to \$100,000 (excluding land and buildings). In Ghana, most studies on small businesses have used a 'statistical definition' rather than the 'economic definition' without taking into consideration the Bolton Committee Report's (1971) caution about a common definition of small businesses for the entire economy. For instance, Steel and Webster (1992) used a 'statistical definition' for their study and adopted the number of employees as a measure of the size of the businesses. Steel and Webster (1992: 424) defined small businesses in Ghana as, 'having from 4 to 9 full-time workers - can be distinguished from micro enterprises with fewer than 4 workers, which are likely to be informal and oriented towards income for survival'.

Since there is no universally acceptable definition of small businesses and considering the different definitions given by researchers and policy makers, Storey (1994) concluded that researchers have to tailor their definition of small businesses according to the particular group of businesses which are the focus of their studies. An extensive review of the literature revealed that in Ghana small businesses have been defined in various studies based on the number of employees (Sowa et al, 1992; Steel and Webster, 1992; Wolf, 2004; Amonoo et al, 2003; Mensah, 2005). However, most small businesses support organisations and agencies use multiple criteria such as employment, fixed assets value and turnover as the basis for defining small businesses. NBSSI, for instance, uses employment and the value of total assets to define small business while Empretec uses employment and turnover.

This study defines small business as any enterprise which employs not less than 4 employees and not more than 50 employees. The number of employees has been used as a basis for defining small businesses in this study because using the net assets value to define small businesses will make it difficult to make comparisons between businesses since there are various methods of business valuation (Amonoo et al., 2003). The high depreciation of the Cedi and high rate of inflation make the definition of small business based on the turnover inappropriate for this study.

A minimum of four employees is used because this study is focused on the formal sector and according to Steel and Webster (1992) any enterprise which employs less than four, then the firm is more likely to be in the informal sector and oriented towards income for survival. Wolf (2004) in a survey of 100 enterprises in Ghana pointed out that a minimum of five employees restricts the number of agriculture enterprises considerably as most agricultural production in Ghana is done on family farms and in an informal way. A maximum of 50 employees is chosen to ensure that all business served by Empretec are covered in the survey and also many private sector support programmes focused on businesses with employees size within the range of fifty (Ernst and Young, 1997). Furthermore, government support programmes such as Export Development and Investment Fund (EDIF) appeared to support such businesses. Table 2.2 provides a summary definitions used by various studies and reports.

2.3 Small businesses' problems and classifications

Having looked at the definitions of small businesses, this section examines the different ways that the problems faced by small businesses can be classified. Terpstra and Olson (1993: 5) noted that 'the development of a comprehensive classification scheme for the types of problems encountered by new organisations could provide a focus for future research studying the relationship between certain problem types and problem formulation and subsequent information processing activities'. However, before we proceed further, it is necessary to provide a definition of a problem. Downs (1967) defined a problem as an individual's perceived difference between a current and a desired state of reality. Pound (1969: 5) explained that "problem" is associated with the difference between some existing situation and some desired situation. All of these definitions point to the fact that a problem is considered to exist in a situation or phenomenon where there is a perception of a difference between the present state of affairs and

Table 2.2. Definitions of small businesses

Author	Main research strategy	Sample size and country	Sector	Definition
Cosh and Hughes (2003)	Survey	2,127/ Britain	Manufacturing / Service	Micro bus. less than 10 employees Small bus. 10 < 100 employees Medium bus. 100 < 500 employees
Sowa et al. (1992)	Survey	1,365 / Ghana	Manufacturing / service	Micro bus. Less than 6 workers Very small bus. 6 < 9 workers Medium bus. 9 < 30 workers
Steel and Webster (1992)	Survey	82 / Ghana	Manufacturing	Small scale enterprise 4 < 29 workers Informal enterprise less than 4 workers
Amonoo et al. (2003)	Survey	50 / Ghana	Manufacturing	SMEs based on employees ranging between 1 – 20
Ernst and Young (1997)	Annual Report	Ghana	Manufacturing	Small scale industries refer to production units with investment and tools not less than ¢10 million (£625) engaged less than 9 workers.
EC Official journal (1996)	Report	European Union	All sectors	Micro ent. less than 10 employees Small ent. 10 < 49 employees, Annual turnover < €27 million, Balance sheet total < €5 million; Medium ent. 50 < 250 employees, Annual turnover €40 million, Balance sheet total , €27 million
Ayyagari et al. (2003)	Report	N/A	All sectors	Micro enterprises - up to 10 employees, Total assets $10,000 and total annual sales $100,000 Medium ent. – up to 50 employees, total assets and total sales –up to $3 million Medium ent. – up to 300 employees, total assets and total sales of up to $ 15 million

the expected desired state of affairs. To perceive a situation as a problem depends internally on an individual's knowledge and motivation, such as education, background and experience, and externally on the situation faced, such as, geographical location, growth stage, industry sector, and national environment (Huang and Brown, 1999).

Various studies have confirmed that small businesses faced more problems than large businesses (Trulsson, 2002; Schiffer and Weder, 2001; Storey, 1994). The effect of small business problems is manifested in their generally poor survival rates and also their high mortality rates. Most small businesses manage to survive in their first year in operation as Storey (1994: 78) put it 'the fundamental characteristics, other than size per se, which distinguishes small firms from large is their higher probability of ceasing to trade'. Dawes (1999) observed that in the US 84% of businesses that make it past the first year still fail within five years. A similar observation was also made by Bates (2005) who noted that about 36% of businesses actively operating in 1992 had closed down by 1996 in the US. In the UK for instance, official figures show that less than 55% of new VAT registrations survive for longer than three years, and less than 40% survive for longer than five years (Hall, 1995). In Africa, Mead and Liedholm (1998) found the closure rates of small business in some countries as follows: Botswana (1991), 6.0%; Kenya (1992), 15.9%; Malawi (1991), 15.0%; Zimbabwe (1990), 7.0%. Mead and Liedholm (1998) also indicated that most closures in these African countries occurred in the early years of the businesses' existence and over 50% of the closures take place within the first three years of start-up. The survival and mortality rates have also been used as a basis for categorising small business problems (Hall, 1995; Headd, 2003).

Different approaches have been adopted by researchers in their attempt to examine small business problems. Small business problems have been examined by researchers in a variety of ways from the context of unfavourable external environments (Aryeetey et al., 1994; Schifer and Weder, 2001; Kodithuwakki and Rosa, 2002), socio-cultural factors (Takyi-Asiedu, 1993; Buame, 1996), financial problems (Amonoo et al. 2003; Tagoe et al. 2005; Abor and Biekpe, 2006) and economic policies (Mead and Liedholm, 1998; Steel, 1994; Lall, 1995).

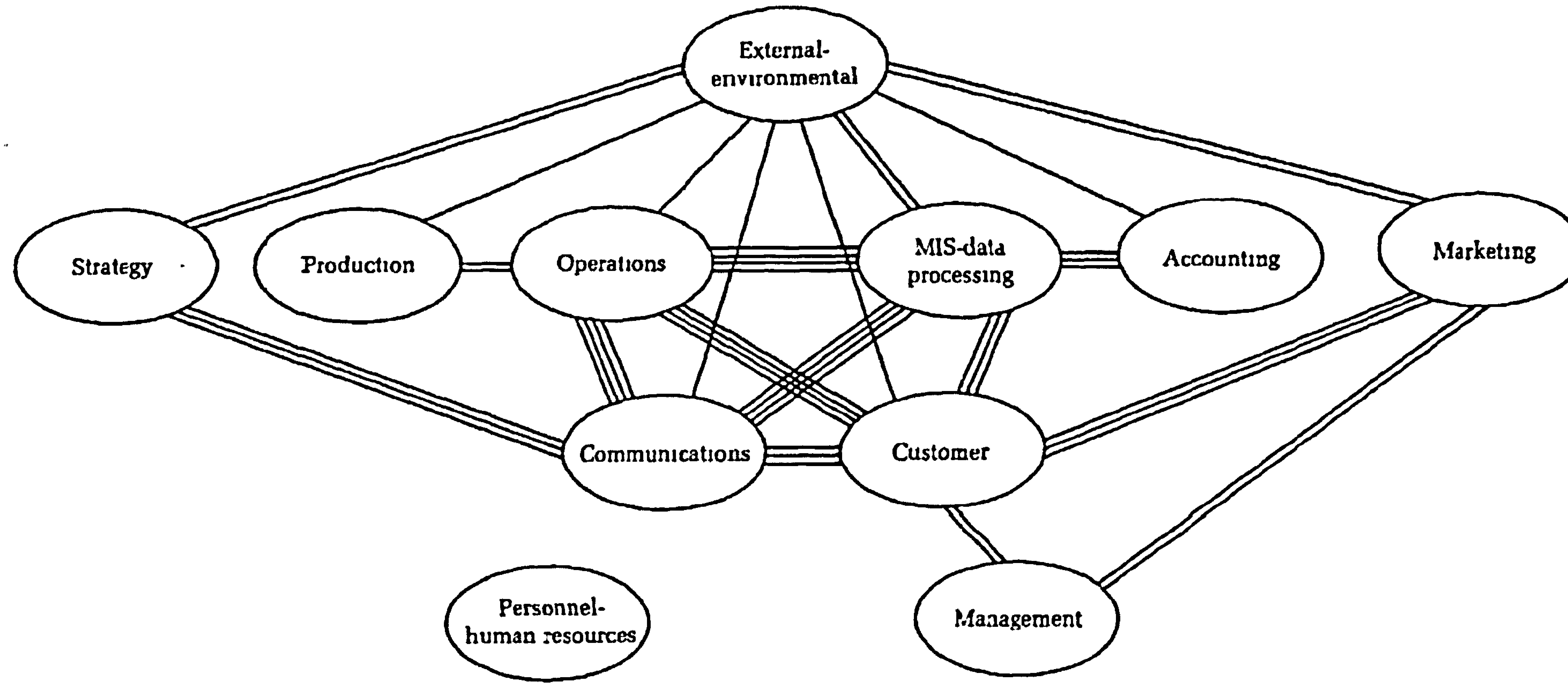
There is no universal framework for categorising problems faced by small businesses. Birley and Niktari (1995) categorised the problems facing small businesses under the main heading 'Themes of failure', with the following sub-headings: capital structure, management team, the economy, and financial management. Walsh (1988) on the other hand, proposed a conceptual framework and grouped the small businesses problems under five headings based on pre-specified scheme and consist of: 1. human relations, 2. accounting-finance, 3. marketing, 4. internal management, and 5. external management. According to Huang and Brown (1999) recent research on the problems facing small businesses has been more empirically driven and generated more comprehensive frameworks. Huang and Brown (1999) cited frameworks developed by Cowan (1990) and Terpstra and Olson (1993) as examples. Cowan (1990) observed that various dimensions and classification frameworks have been proposed to help clarify the categorical relationships between organisational problems. Cowan (1990) revealed that organisation problems interrelate and sometimes overlap from one another. This view appeared to be supported by Isenberg (1984) who also noted that top managers do not think about organisation problems independently, but rather as a multiple interrelated problems. Figure 2.1 adapted from Cowan (1990) exhibits the interrelationships among organisational problems. The interrelationship among organisational problems sometimes makes it difficult for managers to classify them as unique category (Cowan, 1990: 380).

Figure 2.1 also demonstrates the fact that in an attempt to classify small businesses problems, one has to bear in mind the existence of interrelationships among the problems and not to consider them as individual entities. Another lesson from the figure is that problems can also be arranged in a hierarchical order. That is, small businesses problems can be categorised from the following perspectives: the firm, the owner of the firm, and the external environment. However, the problems associated with the firm for instant can not be studied independently from the others. Terpstra and Olson (1993) also noted that a classification structure based on an open ended approach to gathering data is more complete and exhaustive than the closed ended approach. Their study loosely supports some of the existing literature regarding the types of dominant problems associated with different stages of small businesses development. Terpstra and Olson (1993) concluded that classification schemes could provide a better basis for theory and research on problems associated with growing businesses.

2.4. Problems facing small business in Ghana (and African countries)

Having looked at the general framework adopted in categorising small business problems, this section examines in detail the problems faced by small businesses in Africa as identified in the literature. Evidence from the literature demonstrates that many small businesses face more problems than large businesses (Hjalmarsson and and Johansson, 2003; Schiffer and Waders, 2001 and Storey, 1994). However, small businesses in Africa are considered to encounter the

FIGURE 1
Organizational Problem Classification Structure



severest problems compared to their counterparts in the rest of the world. For instance, Schiffer and Waders' (2001) work addressed the question whether business obstacles are related to firm size in a worldwide survey and found that smaller firms faced significantly more problems than larger firms with financing, taxes and regulations, inflation, corruption and street crime particularly in Africa. This section of the chapter examines in detail the following factors hindering the growth of small businesses in Africa: finance, managerial skills, market demand/unfavourable economic policies, lack of skilled labour, inadequate business development services, government regulations and infrastructure, and socio-cultural factors. The factors summarised above are the most commonly cited in the literature on problems faced by small businesses in Africa.

2.4.1. Finance

The importance of finance in promoting the growth of small business has been fully acknowledged in the literature on small business growth and development (Abor and Biekpe, 2006; Berry et al., 2003; Kasekende, 2001). However, most small businesses (whether in developed or developing country) continue to face difficulties in securing adequate finance. Schiffer and Waders' (2001) study found that in Africa financing and corruption were the biggest problems faced by small businesses. In his study on the constraints of growth-oriented enterprises in Africa, Trulsson (2002) identified the following: access to finance, financial management, market orientation and competition, human resources, policies and regulations, and information and networks as the problems hindering small business growth in Africa. Trulsson (2002) found that the majority of the managers interviewed perceived financial constraints to be the key obstacle to growth. The study also observed that inadequacies in the financial system in Tanzania were related to short-term financing as well as long-term investment needs. Other studies have also identified finance as the most important constraint to growth in the small business sector in Africa (Kiggundu, 2002; Biggs and Srivastava, 1996; Parker et al., 1995; Aryeetey et al., 1994; Steel and Webster, 1992; Sowa et al., 1992; Marsden, 1990).

A study conducted by Verspreet and Berlage (1998) on small scale enterprises in Tanzania also found that credit related problems was the most frequently cited in all classes of enterprises especially micro firms. A study undertaken by Buame (1996: 170) sum-up the financial problem of entrepreneurs in Ghana as, 'lack of adequate financial resources remain one of the perennial problems affecting the development and organisation of entrepreneur activities in Ghana especially for expansion of business'.

Although the problem of finance has been identified as one of the major constraints hindering the growth of small business in Africa, most studies on small businesses relied on survey methods to obtain data on constraints to small business growth in Africa as shown on the Table 2.2. However, survey data failed to answer questions as to why owner-managers considered finance as their number one problem. There has been considerable debate as to the degree to which financial capital by itself is a major obstacle to the growth of small business (Trulsson, 2002; Dawson and Jeans, 1997). Among the reasons why small businesses in Africa lack access to finance include: scarcity of finance, information asymmetry, high cost of credit, lack of collateral and lack of expertise to efficiently evaluate a project potential (Kasekende, 2001; Steel and Webster, 1992; Trulsson, 2002; Schiffer and Waders, 2001).

2.4.1.1 Scarcity of finance

Scarcity of finance in most African countries (Marsden, 1990; Verspreet and Berlage, 1998) has made it difficult for small businesses to secure banks' credit. In Africa, the financial markets have not developed to the extent that would enable small businesses to easily source funds from the financial institutions (Abor and Biekpe, 2006; Steel and Andah, 2003). There is also a lack of capital markets in most sub-Sahara African countries and even in countries where there are capital markets, the markets have not been developed to the level that they can support start-up businesses (Marsden, 1990). The UNCTAD (1999) observed that in countries that lack active and organised capital markets, experienced intermediaries and a favourable regulatory environment, local small businesses have difficulty raising medium and long-term capital (that is, working capital and capital for expansion and fixed assets). This is due to the fact that the existing financial institutions which are supposed to serve the credit needs of both large and small businesses focused their attention on public sector and large scale businesses. For instance, from 1987 to 1992, the share of credit to the public sector in total bank credit in Ghana was 74.5% (Steel et al., 1997). The financial needs of small businesses are mostly served by the informal financial institutions which charged interest rates higher than the normal rates (Steel et al., 1997). On the other hand, venture capital which has been developed in Europe and United States as an alternative source of equity capital for start-ups businesses is almost non-existence in Africa (Tagoe et al. 2005; UNCTAD, 2001; Marsden, 1990). The role of informal financial institutions in serving the financial needs of small businesses can therefore not be understated (Abor and Biekpe, 2006). Rogerson

(2001) noted that whilst institutional finance for micro enterprise is fairly new, informal financing schemes have a long history in Africa.

2.4.1.2 Information asymmetry

Poor record keeping makes it difficult for financial institutions to assess the viability of small business projects. In most cases, financial institutions assume that there is certain information that the small business owner has not made available to them. Storey (1994) noted that the existence of asymmetry information makes it difficult for the banks to assess the viability of projects submitted by the small businesses for funding due to greater uncertainty. Kasekende (2001) observed that information asymmetries arising from lack of accounting records, inadequate financial statements and business plans are among the main reasons why small firms have failed to secure credit from financial institutions. Small businesses have been denied access to institutional credit as a result of poor business proposals or their lack of understanding of financial management issues due to their inability to recruit quality staff to undertake such duties for them (Kasekende, 2001). Poor financial management skills, which is the subject of discussion later in this chapter, has been identified in some studies as the cause of information asymmetry in many small businesses in sub-Sahara African countries (Trulsson, 2002; Kiggundu, 2002; Hallberg, 2000; Aryeetey et al., 1994).

2.4.1.3 High cost of credit.

Poor record keeping, poor business proposals and a lack of general understanding of financial management issues mean that financial institutions spend a greater percentage of their time in assessing loan applications for small businesses. Aryeetey et al. (1994) observed that due to poor accounting records of small businesses, the cost of processing and monitoring credit granted to the small businesses were higher than that of large businesses. High failure rates of small businesses (Hall, 1995; Bates, 2005) and an absence of good financial data make risk evaluation of small businesses costly and difficult (UNCTAD, 1999) and high risk also means higher interest rates. High inflation rates in most African countries have also led to high interest rates. According to Schiffer and Weder (2001) inflation is among the first four obstacles in doing business in Africa. Due to the above factors, banks tend to charge higher interest rates when lending to small business as compared to large businesses. Verspreet and Berlage (1998) noted that the high cost of credit has prevented most small businesses from accessing credit.

2.4.1.4 Lack of collateral

Due to the high risk associated with lending to small businesses, most banks have resorted to demand personal security or collateral to ensure that when the project fails, the banks can reduce their losses. Storey (1994: 210) summarised the role of collateral as follows: 'Firstly, it limits the downside loss by proving an asset for the bank in the event of project failure. Secondly, it provides an incentive to the small business owners to commit him or her to the project. Thirdly, it provides a signal to the bank that the business owner believes the project is likely to succeed, otherwise he or she will not commit his/her personal resources to the project'.

However, the truth of the situation is that most of these small businesses do not have the collateral to enable them to apply for credit. Aryeetey et al. (1994) found that in Ghana, banks consistently require collateral to enforce repayment and help screen applicants and this finding has been supported in a recent study by Abor and Biekpe (2006). According to Aryeetey et al. (1994), three quarters of the sampled firms that received loans had to provide collateral, and usually this took the form of farm land. The difficulty of using land as collateral was also confirmed by Tagoe et al. (2005) who observed that most respondents owned land property but lacked appropriate supporting legal documents that would be acceptable by the banks as collateral. This is confirmed by De Soto (2000), in a study of developing countries in Asia, Africa, the Middle East, and Latin America. De Soto (2000) demonstrated that untitled assets that could not be used as a capital was the primary barrier to the kind of entrepreneurship that leads to capital accumulation and national economic prosperity in most developing countries. Inadequate legal systems and inefficient court systems in most African countries and the difficulty in enforcing contracts have discouraged the banks lending to successful small businesses (Hallberg, 2000). However, the demand for collateral by the financial institutions reduces the risk perception by the lending institutions (Tagoe et al., 2005).

2.4.1.5 Lack of expertise to evaluate proposal from small business

Lack of experts to fully assess and evaluate loan applications of small businesses have led to small businesses being denied access to bank credit. The UNCTAD (2001) noted that profitable lending to the small business sector usually requires that the bank puts into place the appropriate structures for servicing small business customers and also invests in learning how to lend successfully to this target group. To achieve this, substantial efforts in capacity building are needed to ensure that banks have the required skills and technology to service their small business customers in an efficient way. Various studies have confirmed that most banks use the conventional methods of assessing loan applications from large businesses to assess small businesses. However, small businesses in most cases do not have the expertise to prepare attractive business proposals for loan application (Butler and Durkin, 1998). This was confirmed by Schoombee (2000) who observed from the literature that conventional banking methods were unsuitable for lending to the informal sector and therefore concluded that banks could not provide loans profitable to that sector.

2.4.2 Financial management

Financial management is another important area which most small business owners tend to underestimate as a constraint to the growth of their businesses. For instance, a study undertaken by Trulsson (2002) in three African countries of Uganda, Zambia and Zimbabwe found that most of the small business owners interviewed did not mention poor financial management as a constraint to their financial growth; however, in the focus group discussion as noted by Trulsson (2002: 336) 'it became quite clear that many of the financial problems raised would not best be addressed by additional capital resources, but better financial management'. This finding is also supported by Kasekende (2001) who argued that the challenges facing small businesses in Africa were not in the area of financing of investment and working capital alone, but also in human resource development, market access, and access to modern technology and information.

According to Kasekende (2001) inadequate skills in financial management could lead to poor management of financial resources. In a recent study undertaken by Tagoe et al. (2005) they found in Ghana that small businesses with good record keeping were more successful than those without proper accounting records.

2.4.3. Market demand and an unfavourable economic environment

As noted by Aryeetey et al. (1994) weak demand and strong competition may be the main causes of tight cash flow situations in most small businesses in Africa. Indeed, the problems of inadequate demand and strong competition have been identified by some studies as the main stumbling block hindering the growth of small business in Africa (Mead and Liedholm, 1998; Verspreet and Berlage, 1998). Among the causes of marketing problems for small business include: competitive business environment, inconsistent government economic policies, lack of marketing skill, and inadequate of marketing information.

2.4.3.1 Competitive business environment

Inadequate demand and strong competition have been major problems for small business owners due to the government liberalisation policies and their limited understanding of the business environment. Lall (1995) noted that full exposure to market forces in these conditions may actually be retarding the development of Ghana's comparative advantage. Mead and Liedholm (1998) in their study of the problems of small business in Africa identified a lack of demand and a shortage of working capital as the main reasons for small business closures in Africa. Mead and Liedholm (1998) noted that lack of demand for small business products and services could be linked to the economic policies of most African governments.

During the early eighties and nineties, most sub-Sahara African countries embarked on Economic Recovery Programmes (ERPs) and Structural Adjustment Programmes (SAPs) which resulted in the massive liberalisation of these economies. Due to the trade liberalisation policies, most small businesses could not compete favourably with the proliferation of cheaper imported goods which flooded the markets of these countries. A study commissioned by the World Bank to investigate into the small enterprise responses to liberalisation in five African countries (Ghana, Mali, Malawi, Senegal, and Tanzania) concluded that, 'many small and medium-sized enterprises were able to take advantage of the changed environment, whilst others were constrained by increased competition, financial difficulties, inputs, and the business environment (Parker et al., 1995). Research conducted by Lall (1995: 2024) confirmed that, 'adjustment in the broader sense, including stabilisation, did not help manufactured exporters in sub-Sahara Africa'.

According to Lall (1995: 2026), 'the rapid pace of liberalisation in Ghana is killing off not just inherently uneconomic activities but also some that could be the basis of new manufactured exports'. Contrary to the views expressed by Mead and Liedholm (1998), Parker et al. (1995) and Lall (1995) about the impact of trade liberalisation policies on small business performance, other studies on Ghana about the impact of adjustments on small businesses revealed results that appeared to demonstrate a positive impact on performance (Sowa et al., 1992; Steel and Webster, 1992).

2.4.3.2 Inconsistent government economic policies

The inconsistent economic policies in most African countries have affected the performance of small business as reported by Nwoye (1997) who noted that inconsistent economic policies make long term planning difficult and plans rather tentative and speculative for most businesses in Africa. A typical example of this case occurred in Ghana when in the 2003 budget statement; the government announced a tariff of 20% on all imported poultry products with the aim of ensuring fair competition for the local poultry industry. However, during the mid-year budget review, the tariff was lifted without any tangible reason.

A statement issued by the President of the Ghana National Association of Poultry Farmers confirmed the members' disappointment about the government decision to lift the tariff. The president noted that the government's decision to lift the tariff would encourage the importation of subsidised poultry products from the developed countries and this would eventually worsen the problems associated with the poultry industry in the country (Asamoah, 2003). This case demonstrates how inconsistent economic policies can frustrate small business owners in Africa. Mead and Liedholm (1998) also observed that government policies frequently discriminate against micro and small businesses relative to their larger counterparts, particularly in terms of their access to inputs and the prices that they must pay for this input.

2.4.4 Lack of marketing skills

Most small business owners lack the basic understanding of marketing concepts and techniques although their closeness with their clients gives them the better opportunity to practice marketing. Cannon (1990) observed that many managers of small businesses question the relevance of marketing to them, given the severe limit on their resources. However, Ellis and Jolibert (1991) revealed a correlation between a survival and executive knowledge of the marketing concept, and between executive marketing attitudes and marketing activities.

Verspreet and Berlage (1999) in their study in Tanzania found that many small business owners chose activities for which they perceived a demand, but because these markets were saturated, the demand for output for individual firms was low. Mbugua, (1999) found in Kenya that narrow product ranges among the various small businesses had led to cutthroat competition and market congestion. The above studies demonstrate that small business owners in Africa appeared to be supplier-oriented rather than being market-oriented because they failed to identify the needs of their target consumers before producing. Julien (1998) also observed that limited marketing budgets affect small businesses' ability to promote their product effectively.

Cannon (1990) noted that successful businesses are based on developing an appropriate marketing mix with the aim of meeting the needs of the consumer. Accordingly, small businesses with strong and a more direct link to market place, shorter lines of communication, flexibility and the ability to act quickly and decisively have the scope to adapt to the changing customer demand than the larger businesses. Mbugua (1999: 116) summarised the factors that limit small businesses to undertake effective marketing activities as follows. Poor quality product and lack of product improvement, inadequate access to marketing information, poor product design, packaging, costing and pricing, lack of access to the public sector market, lack of subcontracting arrangements between large and small firms, and weak support arrangements.

2.4.5 Availability of skilled labour

The availability of skilled labour is one of the main elements of firm's growth (Trulsson, 2002). A lack of skilled labour is another constraint to the growth of small businesses in Africa. McPherson (1996) found that small businesses operated by managers with business training and secondary school backgrounds appeared to experience higher growth rates than those with untrained managers. The importance of managerial skills to firms' growth was also evident in a study undertaken in Ghana by Lynch and Young-Gyampo (1998: 3) which found that, 'even after infusion of capital, firms were often not achieving their potential in terms of sales, employment and growth'. This explains the fact that a financial problem is not the only constraint to small business growth and development in Africa but that there are also other problems such as lack of managerial skills, lack of marketing skills, the business environment and the government economic policies. A study by Soderbom and Teal (2002) in Ghana also found a significant impact between education and productivity although the impact diminished when controls for firm fixed effects were introduced.

Most small business owners in Africa lacked adequate managerial and technical skills but various studies conducted over the years have revealed that small business owners do not perceive inadequate skills as a limiting factor to their firms' growth (Trulsson, 2002; Verspreet and Berlage, 1998; Aryeetey et al., 1994). African business owners have not been able to compete successfully in the global market as a result of poor managerial skills. Lall (1995) observed that African countries at this stage of their industrial development would not need a high level of technical education, yet the availability of technical manpower at the moment is so low for the existing industries and the levels of efficiency could not be comparable to the world standard.

Elkan (1988) noted that in the early stages of industrial development, managing factories was always a problem and the African experience has been less successful than that of other developing countries, partly because Africa has a more relaxed attitude to labour management. The severity of a poorly skilled workforce in Ghana, for instance, was highlighted by Lall (1995: 2026) who stated that, 'conventional wisdom suggests that cheap labour should be the main source of comparative advantage in manufacturing for newly industrialising countries. What this ignores is that even the ability to compete internationally in the labour intensive industries requires the level of productivity and managerial skills that is presently lacking in Ghana'. Lall (1995) also noted that a typical Ghanaian local firm has entrepreneurs with low levels of education, a poorly skilled work force and no method for raising their technological capability.

Whilst various studies have confirmed that small business owners with vocational or secondary education experience faster growth than those without such education (Mead and Liedholm, 1998:68; Trulsson, 1997: 31), Verspreet and Berlages' (1998) study found that small business owners themselves do not regard inadequate technical and managerial skills as a major constraint to their firms' growth.

2.4.6 Inadequate business development services

A lack of managerial skills by most small business owners in Africa, as indicated above, clearly confirmed the need for business development services (BDSs) in Africa. This section of the chapter looks at the factors affecting the development of BDS as an instrument to promote the growth of small business in Africa. A study by Bennett and Robson (1999) indicated that external advice and consultancy have increased rapidly since the mid-1980s but in Africa such services are only available in the urban areas. Bennett and Robson (1999: 174) also revealed that the use of external advice could influence the growth of small businesses, particularly, accountants, solicitors and customers. The success story of small business in South Korea can be attributed to the creation of a number of institutions and support mechanisms in the 1970s and the 1980s (Kim and Nugent, 1994).

Africa has not been successful (Manuh, 2003: 4) as compared with the European and the South-East Asian because most of the BDS programmes benefit large businesses which have connections and links with government officials (Ninsin, 1989). In Tanzania, for instance, the Small Industries Development Organisation (SIDO) was established in 1973 in order to promote the development of the small business sector while in Ghana the National Board for Small- Scale Industries (NBSSI) has its roots to the Ghanaian Business (Promotion) Act, 1970 which was passed by the Busia government. The aim of the bill was to assist Ghanaians to establish certain types of businesses and the government providing institutional support (NBSSI News, 2002).

Rogerson (2001:16) observed that until recently, the record of many BDSs such as training programmes, information support services and technology support programmes had been unimpressive and often seen as suffering from three major weaknesses. Firstly, that they had limited impact through a general failure to provide a large numbers of beneficiaries. Secondly, most programmes had been supply-driven, with services and projects on offer reflecting the views of service providers and they were poorly informed by the needs and priorities of target groups. Finally, such programmes were criticized as expensive with a limited capacity for cost recovery and long-term financial sustainability.

In recent years, there has been a proliferation of BDS programmes in most African countries, which are undertaken by non-governmental organisations (NGOs) or private sector institutions. The impact of BDS programmes in terms of removing or minimising the internal problems of small businesses such as low level of entrepreneurial skills, inadequate marketing and product design skills, poor financial management, poor accounting records has been insignificant (Manu, 1999). Most of the services are not designed to meet the needs of small businesses but rather to satisfy the needs of the funding body.

Although the recent application of sub-sector analysis to identify specific problems shared by small business in Africa has helped to overcome problems of the BDS, there are other difficulties that need to be addressed. Business links, subcontracting and franchises are recent developments which have been recognised as positive initiatives necessary for building small business capacities in terms of both training, skills development and securing contracts (Netswera, 2001) and which have become popular among the public support services in UK (Bennett and Robson, 1999), such initiatives are yet to take roots in most African countries including Ghana.

To conclude this section of the chapter, the following provides a summary of the problems faced by BDSs in Africa as identified by some practitioners and researchers (Manuh, 2003; Rogerson, 2001; and Dawson and Jeans, 1997) as: over-ambitious projects which attempt to address many problems with limited budgets, a lack of focus in terms of target group selection and training, a lack of co-ordination which leads to a duplication of projects, and a lack of governments' policies on the development of small businesses.

2.4.7 Government regulation/poor infrastructure

Government regulation is another area that hinders the growth of small business in Africa. However, the impact of the regulatory environment on small businesses is not significant in all countries. Parker et al. (1995) after examining five African countries reported that few micro and small enterprises were strongly affected by regulations due to either informality or years of experience in getting around regulations. A study undertaken by Verspreet and Berlage (1998) in Tanzania supports this view and in addition stated that regulation encourages firms to stay small and informal in order to avoid the negative implications of regulations. This statement has confirmed the fact that regulations constraint the growth of small business in Africa by encouraging them to remain informal.

Government regulations are seen by most small businesses as having little impact on their activities when asked to list the factors hindering the growth of their businesses. However, Mead and Liedholm (1998) reported that small businesses rarely mention the direct governmental controls or regulations among their principal problems or constraints; the indirect effects of such regulations can be both subtle and pervasive. Aryeetey et al. (1994) also observed that in view of the generally known cumbersome nature of the process of registering a company and obtaining manufacturing licence to commence business, the sample of small scale enterprises gave no indication of being bothered by regulations. Mead and Liedholm (1998) further reported that government policies frequently discriminate against small businesses relative to their larger counterparts.

2.4.8 Poor infrastructure

Poor infrastructure has also been identified by some studies as a constraint to the growth of small business in Africa especially energy and telecommunication (Wolf, 2004; Rankin et al., 2002; Reinikka and Svensson, 1999). Wolf (2004) observed in Ghana that high cost of utility charges affect the competitiveness of the Ghanaian manufacturing businesses on the international market. In Uganda, Reinikka and Svensson (1999) observed that due to the frequent power interruptions many businesses spent over 16% of their initial investment on energy.

Unavailability of industrial sites for small business was also identified by Buame (1996), and Verspreet and Berlage (1998) as a major constraint to small business growth, especially micro enterprises in Ghana and Tanzania. Buame (1996: 178) also observed that irregular supply of essential utilities affects the operations of small business in Ghana as one respondent who was with a food processing industry in Ghana described the problem '*One difficulty we face is the constant cut of power and water suppliers, this I think you know already. It is a general problem facing all of us. At any time you should expect power cut or water stoppage. In fact, those who could afford it have installed a stand by generators and large reservoirs... Could you imagine what happen to our frozen inputs and outputs when power is off for about six to twelve hours*'? This view is expressed largely by most small business owners in Africa.

2.4.9 Socio-cultural factors

Socio-cultural factors have been considered by some studies as another area hindering the growth of small business in Africa (Takyi-Asiedu, 1993). Due to the extended family system and the high social status that small business owners enjoy in Africa, most small business owners commit a greater percentage of their business resources to family matters at the expense of their businesses (Kiggundu, 2002). Takyi-Asiedu (1993) also reported that in Kenya, female owner-managers spend part of their business resources in supporting needy family members. Buame (1996) noted that social and family relations disadvantaged owner-managers in West Africa as they were obliged by the society to take care of their needy family members.

However, other studies have also drawn positive conclusions about the extended family systems of Africa and the social status of African entrepreneurs (Kiggundu, 2002). Cooke and Wills (1999) have demonstrated that in many Western countries, social capital enhances business, knowledge and innovation performance. In Africa, Dia (1996) observed that social relations, social capital and social transfers serve as the building block for reconnecting Africans and their institutions, including indigenous firms. Despite the above arguments, Kiggundu (2002) concluded that the external environment made up of macroeconomic and social-cultural variables, is considered necessary but not sufficient for sustaining changes in the entrepreneurial competencies and firm performance.

2.5 Problems facing small businesses in the UK compared with Ghana (and African nations)

Having looked at the problems constraining the growth of small businesses in Africa, this section of the chapter examines the problems facing small businesses in the UK. There is clear evidence from the available literature that the problems faced by small business in UK are not as severe as those in the developing countries. The problems can be categorised under the two main headings: internal and external. For instance, Storey (1994) identified finance and the level of aggregate demand in the economy, and the nature of competition within the market place as the most important perceived constraints for small businesses in his study. Interestingly, all these factors were external to the businesses and the internal factors such as managerial and skilled labour were considered to be of lower significance. However, the rates of growth of the businesses were more likely to influence the level of significance of the perceived problem (Storey, 1994). A stable or declining business would be more likely to indicate slow demand as a constraint to growth whilst a fast-growing business would probably point to constraints relating to finance and employment barriers such as marketing and sales skills or managerial skills.

A study by Dunsby (2001) identified the following as the most important barriers to growth and survival of small businesses in the UK and ranking in order of priority were: marketing and sales; finding finance and Cash flow problems; accounting and credit control; employment, computer and information technology; production quality; health and quality. With regard to finance, Dunsby (2001) noted that the real problem did not depend on shortage of finance but lack of sound proposals worthy of financing. In a report submitted to the Federation of Small Businesses in the UK, Carter et al. (2002) also observed the following as important factors constraining the growth and survival of small businesses in the UK: finance and banking, ability to employ staff, legislation, and availability of business advice.

A recent study by Cosh and Hughes (2003) found that increasing competition, the growth of market demand and marketing and sales skills as the most pressing constraints hindering UK businesses in the achievement of their business objectives in the recent past. According to the Cosh and Hughes (2003) study, the overall pattern of responses reflected low demand as opposed to problems of finance for expansion. The study also revealed some differences in constraints based on the growth rates of the businesses as pointed out by Storey (1994). A study undertaken by Berry et al. (2003) noted that the problems experienced by small businesses in assessing finance in recent years have fuelled the debate on growth and survival of small businesses in the UK. The study concluded that the finance gap for small businesses is due to the lack of equity investment and partly to a mismatch between the debt finance available, the conditions attached to the supply of the finance and the requirements of the small businesses market. The main constraints to small business growth in the UK have been centred on finance, market demand and inadequate managerial skills. However, a Bank of England (2000) report on small business in deprived areas of UK identified the following as the potential barriers to raising finance: asymmetric information, availability of collateral, availability of equity, crime rates, remoteness, skill and experience, and small localised market. These problems can also be associated with small businesses in many African countries.

Table 2.3 shows the problems faced by small business as identified by various researchers from different studies. The table provides a general overview of the nature of problems commonly identified and the severity of each problem.

Having looked at the problems of small businesses in the UK, the question that one has to ask is: 'whether problems of small business in UK are similar to small business in Africa'. A careful study of the literature reviewed reveals that there are similarities in the area of finance, market demand and managerial skills.

Table 2.3: Summary of Problems faced by small businesses

Name of Author/s	Research Method	Country	Finance	Market demand	Economic/ Gov. reg	Socio-cult.	Skilled Labour	Infra	Input	BDS
Buame (1996)	Case study	Ghana	2	5	3	4		1		
Ninsin (1989)	Exploratory	Ghana	1	3			2			
Ernst and Young (1997)	Report	Ghana	1	2				3		4
Steel et al. (1997)	Survey	Gh., Mal., Nig., Tan.	1							
Aryeetey et al. (1994)	Survey	Ghana	1	4	5		2	3		
Steel and Webster (1992)	Survey	Ghana	1	2					3	
Mead and Liedholm (1998)	Survey	Afr/Carib.	2	1						
Satta (2003)	Survey	Tanzania	1		2					3
Verspreet and Berlage (1999)	Survey	Tanzania	1	2	5			3	4	6
Kasekende (2001)	Report	Uganda	1	2			5	4	3	
Trulsson (2002)	Focus group	Ug., Zimb.,Zamb	1	3	4		2			
Marsden (1990)	Case study	Africa	1			1	2			3
Kiggundu (2002)	Selective & illustrative	Africa	1		2	1				1
Takyi-Asiedu (1993)	Selective	Africa				1				
Storey (1994)	Survey	UK	1	2			3	4		
Birley and Niktari (1995)	Survey	UK	1	4	3		2			
Dunsby (2001)	Survey	UK	2	1			3			
Cosh and Hughes (2003)	Survey	UK	2	1			3			
Terpstra and Olson (1993)	Survey*	USA		1	3		2			
Huang and Brown (1999)	Survey	Australia	3	1			2			
Schiffer and Weder (2001)	Survey	Worldwide, Gh	1		2			3		
Schiffer and Weder (2001)	Survey	Worldwide, Af.	1		3			2		
Schiffer and Weder (2001)	Survey	Worldwide, UK	2		1					

*Growth oriented firms. Note: Severe problems are ranked 1 and less severe problems ranked 5.

Whilst market demand, marketing and sales skill are considered to be the most domain problem for small business in UK, finance has been identified as the major constraint to small business growth in Africa. In the UK, the real problem of finance as noted by Dunsby (2001) is not a shortage of finance but a lack of sound proposals worthy of financing. However, in Africa, the finance problem is one of both shortage and also a lack of sound proposals worthy of financing.

A lack of managerial skills has been a major problem for small business in UK and Africa and there are also problems associated with technical and technological know-how facing most small businesses in Africa. Other problems peculiar to small business in Africa identified include: unfavourable economic environment, government regulations and poor infrastructure, inadequate business development services and socio-cultural factors.

2.6 Conclusion

This chapter has investigated the problems faced by small businesses in Ghana (and Africa), and has also compared the problems with small business in the UK. The study examined the definition of small businesses as given by various authors but noted that there is no universal definition of small business and as result concluded by supporting Storey's (1994) statement that researchers have to tailor their definition of small firms according to the particular group of small firms which are the focus of their study. This study defines small businesses as firms employing not less than 4 paid-employees and not more than 50 paid-employees. The framework used by researchers to analyse small business problems was also examined and also concluded that there is no universal framework for categorising the problems faced by small businesses. Comparison of the problems faced by small business in Africa and the UK found that small business in both countries faced similar problems in the area of finance, marketing and managerial skills although detailed analysis of these problems revealed some slight differences. However, problems of small business in deprived areas in UK have similar characteristics with most of the small business in Ghana (and Africa). Other problems identified, which are peculiar to small business in Africa, include: an unfavourable economic environment, government regulations and poor infrastructure, inadequate business development services and socio-cultural factors.

Chapter 3

Business Development Services

3.1 Introduction

The previous chapter outlined the range of problems which are encountered by small businesses in Africa with particular reference to Ghana. In response, the use of external support services has been recognised by both academics and policy makers as one of the methods which can be used to improve the performance of small businesses (Bennett and Robson, 1999; Chrisman and McMullan, 2004; and Massey, 2003; Ramsden and Bennett, 2005). However, there are other researchers who have found little or no evidence between the use of external business advice and the performance of small businesses (Storey, 1994; Manuh, 1999; Mambula, 2004; Hjalmarsson and Johansson, 2003).

This chapter therefore reviews the literature on the external support services to small businesses with more emphasis on the business advisory services. An extensive review of the literature of this particular area of research in the African context revealed that in most cases, the available information on the subject has been provided in the form of reports published by service providers that lacked critical independent statistical analysis (Gibson, 1999; Verspreet and Berlage, 1999; van Bussel, 2001). Storey (2004: 120) issued a note of caution about the results of such reports 'Policy makers in many countries confidently assert a relationship between the participation in the formal management-training programme for an SME owner/manager and the consequent enhanced performance of that SME'.

In the absence of comprehensive and independent studies this chapter will utilise empirical studies undertaken in developed countries such as the UK and the US. The chapter is organised as follows, section two looks at the nature of external support services and the various classifications which have been adopted in the literature, section three discusses the need for external business support to small businesses, section four reviews the range of sources of external advice available for small businesses, section five examines the factors that influence the demand for external support; section six assesses the impact of the use of external support services on small business performance, section seven reviews the literature on the external business advice in Ghana and the final section concludes the chapter.

3.2 The nature of external business support to small businesses

The need for governments all over the world to provide support to small businesses has been recognised by both academics and policy makers as a result of the crucial role that the sector plays in the economic development of a nation. In recent years both governments and the multilateral organisations have used huge amounts of public money to provide advisory and training services to small businesses (Wren and Storey, 2002; Beck et al., 2005). Netswera (2001) argued that the rapid growth of the economies in the South-East Asian countries such as the South Korea, Taiwan, and Hong Kong was due to the systematic external support services that the governments provided to the small businesses in those countries.

The nature of support to small businesses can be categorised into various forms depending on the needs of the businesses in the country or the community in which such assistance is provided. The type of support provided could be finance related such as grants, subsidised loans and loan guarantees or in the form of training and provision of advisory services (Lambrecht and Pirnay, 2005; Rogerson, 2001). Chrisman and

McMullan (2004), on the other hand, noted that outside assistance could be in a form that would enable the entrepreneur to develop an effective network, raise capital or the provision of advisory services that would enable the entrepreneur to improve the performance of the business. Furthermore, Verspreet and Berlage's (1999) study in Tanzania also observed that government assistance to small businesses could take the form of measures designed to improve the overall business environment such as the regulatory framework and tax system, infrastructure development, and the provision of financial and non-financial services.

In addition, the term 'hardware' and 'software' have also been used by some studies to categorise external support services to small businesses (Manuh, 1988: 52). Manuh used the term 'hardware' to refer to the external support services which included the provision of finance, taxation, material and other tangible resources to small businesses while 'software' was used to refer to the provision of information and advice, counselling and consultancy, training and education to small businesses. Wren and Storey (2002: 334) also used the term 'soft' support to refer to the provision of the advisory assistance, the dissemination of best practice, and encouragement of partnership and gateway services while the term 'hard' support was used to refer to the finance related services such as loan guarantee, subsidised small business loan and other grants offered to small businesses. Other studies have also used the terms financial and non-financial support to categorise the external support services to small businesses (Rogerson, 2001; Dawson, 1997). Financial or non-financial support services to small business development have become a common parlance in the external support service vocabulary because as noted by Hjalmarsson and Johansson (2003: 83) 'they are the two of the most common public interventions in most countries'.

Carney (1998) classified external support services to small businesses under four different types of capital assets such as physical, social, natural and human capital. Carney explained that physical capital involved the provision of infrastructure such as water, electricity and industrial sites for small business development. Social capital refers to the external support services which are aimed at supporting small businesses to develop business linkages, networks, clusters, business associations and cooperatives. Natural capital refers to the promotion of the sustainable use of natural resources, recycling, pollution reduction and the waste disposal. Human capital refers to the provision of training, advice, counselling, consultancy, entrepreneurship, and business management. In recent years small business support programmes in many countries could probably be classified under the social and human capital assets (Ramsden and Bennett, 2005; Lambretch and Pirnay, 2005) although in some developing countries, government support to small businesses had included the provision of physical capital assets.

In Africa most external support schemes to small businesses have focused on social and human capital assets (Morris et al, 1997; Natswera, 2001; Rogerson, 2001) although there were a few instances where the support had included the provision of physical capital assets (Verspreet and Berlage, 1999). The main rationale for the development of human capital in small businesses could be due to the high rates of illiteracy in many African countries and also the inadequate managerial and technical know-how that faced most owner-managers (Lall, 1995; Wolf, 2004; Frazer, 2005). The communal nature of most African societies promotes social cohesion and networks (Buame, 1996; Malecki, 1997) and therefore underpinned the important role that the development of social capital could play in small business promotion in Africa.

The concept of human capital as demonstrated by Woodhall (1995) confirmed that investment in human capital in the form of education and training have the potential of increasing individual's future income. In a more recent study, Sackey's (2005) analysis of the incidence of poverty in Ghana based on the asset-based perspectives concluded that 'evidence from the study proves that the returns to human capital are positive and rise with higher educational attainment, irrespective of the gender and poverty status'. Sackey's (2005) results collaborate the fact that owner-managers who invest in human capital are more likely to improve their future earnings than their counterparts without any investment in human capital. The above analysis demonstrates the important role that investment in education and training could help to reduce poverty and also promote the development of small businesses in the developing countries where a greater percentage of the population had no basic education.

3.3 The need for external business support to small businesses

The role of small businesses in promoting the economic development of a country has been recognised by both academic and the policy makers and has gained prominence in recent years. However, the performance of small businesses - whether in the developed or the developing countries has not been encouraging in terms of their survival, competitiveness, and growth when compared with large businesses (Mead and Liedholm, 1998; Bates, 1990). A study by Cressy and Storey (1995) in a survey of 2000 small businesses start-up in the UK revealed that after 6 years in operation only 19% of the businesses had survived. A review of the literature of the problems faced by small businesses in the previous chapter included the lack of managerial and technical skills that would enable the small business to compete effectively in a competitive global market. Inadequate financial resources can also prevent businesses to outsource or consult and use external business support services even if the demand for the service exists (Hjalmarsson and Johansson, 2003).

Considering the weaknesses of the small businesses in terms of the managerial and the technical skills which invariably affect their survival and performance, the role of the external advice as a knowledge resource can not be underestimated. Chrisman and McMullan (2004) used the theory of 'outside assistance as a knowledge resource' to argue for the need for external assistance to small businesses in order to enhance their competitiveness and survival. Chrisman and McMullan (2004) also argued that most small businesses in their early stages fail to survive because of the lack of basic managerial and technical skills which may lead to the creation of a 'knowledge gap'. The use of outside assistance will provide both 'tacit knowledge' (knowledge that is experientially based and difficult to codify, replicate, and transmit) and 'explicit knowledge' (knowledge based on facts and theories that can be codified, replicated, and transmitted to others more easily) to the owner-manager according to Chrisman and McMullan (2004: 232). The knowledge acquired could enhance the competitive advantage of the small business, hence, leading to improve survival and the performance rates.

Since formal small businesses are believed to promote economic growth (Ayyagari et al., 2003; Beck et al., 2005; Bothan, 2004), most governments offer some form of support to small businesses in order to promote the growth of the economy. For instance, McPherson (1996: 254) pointed out that 'the promotion of small-scale textile manufacturing in India was a priority even before independence in 1947'. In the United States, on the other hand, the Small Business Administration (SBA) was created in 1954 with the objective of promoting small businesses growth in the country (Steinhoff and Burgess, 1989). Also, in the United Kingdom, there had been various attempts by the previous governments to support business development as far back as 1918 when the David Lloyd George government provided subsidies to Industrial Research Associations (Bolton Committee Report, 1971: 127). However, small businesses promotion in the UK were brought into limelight through the Bolton Committee report in 1971 which noted that 'prior to the appointment of this committee there had never been a comprehensive study, official or otherwise, of the small firm sector in the United Kingdom' (Bolton Committee Report, 1971: xv).

Some researchers (McPherson 1996; Nieman, 2001; Beyene, 2002) have explained that the basis of government intervention in most African countries was the recognition of the important role that the sector could play in terms of poverty reduction, job creation and also as a 'seed bed' for entrepreneurship development. The need for governments in most African countries to support small businesses could also be explained as a result of policy failure. Immediately after independence many African governments attempted to develop their economies through the promotion of the large scale import-substitution industries but yielded no positive results (McPherson, 1996; Rogerson, 2001; Beyene, 2002). Asante et al. (2000) observed that by the mid to late 1960s it was obvious that the CPP industrialisation programme in Ghana had failed.

In the midst of antagonistic policies toward small businesses in the 1960s in many African countries, some of the small businesses managed to survive - as one researcher described them as 'pioneers of development' (Marsden, 1990). Following the success stories of the South East Asian countries such as South Korea, Hong Kong, and Taiwan, many African governments since the 1970s have initiated various policies and programmes with the aim of promoting small business growth. In most cases, these programmes have received the support of both bilateral and multilateral donors (McPherson, 1996).

Beck et al. (2005) argued that World Bank Group and other international agencies support to small businesses in the developing countries have been based on three main factors. First, small businesses enhance competition and entrepreneurship, second, small businesses can boost economic growth and employment, and third, small businesses are more labour intensive than the large businesses, hence, creating more jobs for the labour-force. Furthermore, Lambrecht and Pirnay (2005) and Devins and Johnson (2003) have also argued that small businesses have special needs which may not be served by the mainstream support organisations on a commercial basis. Devins and Johnson (2003) pointed out that small businesses faced more barriers to training than the big businesses. Lambrecht and Pirnay (2005), on the other hand, noted that a lack of understanding of the needs and priorities of the small businesses by professional specialists and generalists and the unwillingness of these professionals to review their pricing policies to meet the pockets of small businesses called for government intervention. This argument was also supported by Mambula (2004) who also noted that financial problems faced by small businesses may probably hinder their access to consultancy services as compared to the large businesses. Other researchers such as Wren and Storey (2002) and Hjalmarsson and Johansson (2003) have used economics theories to explain the basis for government intervention in the provision of external support to small businesses and these theories are discussed in the subsequent paragraphs.

Wren and Storey (2002) argued that government intervention in the provision of external support to small businesses could be the result of 'market failure'. Wren and Storey (2002) explained that the main reason for the 'market failure' was the existence of information asymmetry which can be explained from the basic economic principle of demand according to Westhead and Storey (1996). In their study titled "Management Training and Small Firm Performance: Why the link so weak?" Westhead and Storey (1996: 23) examined four categories of reasons why small businesses purchased less management training than the larger businesses:

The first reason was based on the higher price charged by the service providers. Westhead and Storey (1996) indicated that the 'real' price of management training paid by the small businesses could be higher than the large businesses when the opportunity cost of the absence of the owner-manager at workplace is taken into consideration. Alternatively, demand for a training programme tailored to meet a specific need of the small businesses could also lead to higher training price.

The second reason related to the financial constraint faced by small businesses as result of their low income levels and their inability to raise finance from banks imply that small businesses would be less likely to purchase management training when compared with the large businesses.

The third reason related to taste and three factors were raised here. Planning in small businesses has always been for the short term rather than the long-term period due to the greater uncertainty that they faced. Because management training appeared to have a long-term impact on the businesses performance, small businesses would be less inclined to purchase management training. Also the absence of the internal labour market in small firms affects the motivation of the owner-manager and non-owner-manager to purchase management training for the workforce. The third factor is based on the argument that training is not conveniently provided to small businesses in terms of the location, time and the method of delivery, hence, their lack of interest in management training.

The final reason given by Westhead and Storey (1996) is based on information. Small businesses lack adequate information on management training in terms of awareness as compared with the large businesses.

Lack of awareness about the existence of external support services or potential benefits to be generated from such services have been pointed out by several studies as part of the reasons why most small businesses have not been able to access external support services in most African countries (Wolf, 2004; Verspreet and Berlage, 1999). From the supply side, some studies have reported that most of the external support services offered to small businesses had been inappropriate and failed to meet the specific needs of small businesses (Patton at al., 2000; Manuh, 1999). Also Westhead and Storey (1996) reported that service providers could lack the incentives to contact small businesses about training programmes and the benefits to the business due to low fees that they charge to small businesses.

3.4 Sources of external advice

The supply of external advice to small business has grown tremendously in recent years in most countries (Bennett and Robson, 1999) as a result of changing governments' policies from financial support to the provision of training and advisory services (Dawson, 1997; Wren and Storey, 2002; Lambrecht and Pirnay, 2005). Changing government policies have also resulted in the huge public investment in the provision of advisory services in most countries whether developed or developing. The huge investment in the development of small businesses was the recognition of the potential role that they could play in income distribution and job creation. For instance, Wren and Storey (2002: 334) reported that in the UK government investment in the provision of advisory services to small businesses through the Business Link was estimated at £650 million per annum while in Sweden the public investment in the provision of advisory services to small businesses was estimated to 'absorb between 7-8% of the net industrial cost'. Beck et al. (2005) reported that the World Bank Group provided more than $10 billion from 1998 to 2002 and about $1.3 billion in 2003 for small businesses support programmes in developing countries.

In Africa, the African Project Development Facility (APDF), an umbrella of the International Finance Corporation (IFC)/World Bank was estimated to have spent about $67.3 million on business advisory services during the period July 1 2003 to June 30, 2004 (APDF Annual Report, 2004). This expenditure is just one out of the numerous bilateral, multilateral and governments support to small business advisory projects in Africa.

The sources of external business advice to small businesses cover a broader area of study and also vary from one country to the other depending on the government policy toward the promotion of small businesses or the needs of small businesses (Ramsden and Bennett, 2005; European Commission Report, 2002; Massey, 2003). However, in a myriad of studies that have examined the sources of external advice categorised the suppliers of external advice into the following groups namely public agencies, private, bilateral and multilateral donors (particularly in developing countries), and the non-governmental organisations (Ramsden and Bennett, 2005; McPherson, 1996; Burke and Jarratt, 2004; Mkandawire, 1999).

The role of the bilateral and multilateral donors is prominent in most developing countries due to the apparent lack of clear government policies (McGrath and King, 1999) on small businesses development and also inadequate public support for small businesses development schemes (McPherson, 1996; Rogerson, 2001). In Ghana, a study in 2002 by the African Project Development Facility (APDF, 2002) noted that small businesses were the major focus for Donor and Development Agencies who had substantially increased their development interventions in the private sector. Dondo (1998) also made similar observation in Kenya. However, in most western countries a clear policy direction by governments towards the promotion of small businesses has resulted in most business development schemes initiated by the government (Lambrecht and Pirnay, 2005; Devins and Johnson, 2003; Storey: 2004).

Consequently, other studies that have examined the sources of external advice have grouped them into various classifications based on the focus of the study (Ramsden and Bennett, 2005; Chrisman and McMullan, 2004). Ramsden and Bennett (2005) study on 'the benefit of external support to SMEs' categorised the sources of external advice into three main groups namely the private sector, business associations and the public sector sources. This classification according to Ramsden and Bennett (2005: 231) was based 'on the extent and the quality assurance mechanisms', brand/reputation, government regulations, and industry self-regulations. For the private sector, Ramsden and Bennett (2005) argued that the quality of service was controlled by reputation in addition to self-regulation which was the result of the individual membership of a professional association. The quality of services provided by the Trade associations and the public sector, on the other hand, were influenced by the associations' and the governments' regulations. Ramsden and Bennett's (2005) classification did not include sources such as customers, suppliers, family and friends which might be classified as 'informal' or social networks. These sources have been identified by similar studies as an important information sources for small businesses (Buame, 1996; Hill et al. 1999; Burke and Jarratt, 2004).

Hill et al. (1999: 77) used a qualitative approach to explore and investigate the social network of a group of firms and developed a model which appeared to confirm that at the early growth stages of the small business, the entrepreneur used 'social networks to evaluate opportunities identified and also to confirm specific information'. However, it was pointed out that as the business grows the professional contacts become an important information source although social contacts continue to play an important role at this stage. The main sources of social contacts identified by Hill et al. (1999) included family, friends, neighbours and colleagues while the professional sources included the accountants, bank managers, suppliers, employees, and support agencies. Surprisingly, Hill et al. (1999) did not identify customers as an important source of advice.

Other studies have also focused on specific suppliers of external advice (Kirby and Kings, 1997; Bennett, 1998; Burke and Jarratt, 2003; Gooderham et al., 2004). Table 3.1 provides a summary of some of the most recent studies which have examined the sources of the external business advice. A careful examination of Table 3.1 revealed that some of the studies examined broad sources of external advice while others were narrowly focused on specific sources (Chell and Baines, 2000; Bennett, 1998; and Kirby and King, 1997). Whereas Bennett (1998) study focused on the business associations and the small business, Kirby and King (1997) and Gooderham et al. (2004) studies emphasised the role of accountant as an external source of advice.

It is also important to point out that many of the studies in Table 3.1 used quantitative or survey methods with only two of the studies (Hill et al., 1999 and Burke and Jarratt, 2003) adopting a qualitative approach. Chell and Baines (2000) on the other hand, employed both quantitative and qualitative methods. Only two of the studies were of Africa (Pentax Management Consultancy Services, 2005 and Verspreet and Berlage, 1999). There are other similar studies undertaken in Africa but they were not included because they did not focus on the sources and the use of external advice for small businesses. The following section reviews the literature on the suppliers of external advice to small businesses.

3.5 Classification of sources of external advice

The analysis of the various sources of external advice on this section is based on Bennett and Robson's (1999) classifications. Their study grouped the sources of external advice into six main categories of: professional specialists, professional generalist, market and supply chain contacts, social contacts, business associations, and government sponsored agents. In order to reflect the study context, a seventh group has been added to the Bennett and Robson (1999) classification as shown in Table 3.2.

Table 3.1 Previous studies on sources of external business advice (Percentage of respondents reporting use).

Business advice source	Berry et al. (2006)	Ramsden & Bennett (2005)	Pentax Consultants (2005)	Boter and Lundström (2005)	Burke & Jarratt (2004)	Bennett & Robson (2003)
Customers		38.0			+	57.7
Suppliers		37.1			+	42.7
Family/Friends		43.3			+	41.5
Business Associates					+	
Employees (Former)		26.7				
Banks		59.0		79	+	58.8
Accountant	85	82.7	26.3	74	+	80.4
Solicitors		76.3	22.7		+	51.6
Consultants	54	44.3	5.7		+	30.3
Universities/Colleges	32	22.1				10.2 (LEC)
Trade/Professional Associations		34.0			+	35.9
Chamber of Commerce		26.3	16.3		+	23.1
Business Link		68.2		58 (EAS)		32.6
Government Agencies:	49	20.5 (DTI)		11	+	10.2 (LEC)
NGO/Donor Governments						
Venture Capital		3.0				5.4
Business Angel		6.2				6.3
Other Sources	66					95.5
Definition of small business (Employees)		5-100	1-29		1-30	1-500
Number of Respondents	140	194	300	1022	16	2,127
Study Area	UK	Britain	Ghana	Sweden	Australia	Britain
Methodology	Survey	Survey	Survey	Survey	Case-study	Survey

+ sign indicates that the level of use of business advice was not measured directly.

Table 3.1 Previous studies on sources of external business advice (Percentage of respondents reporting use).

Source /Author(s)	Jay & Schaper (2003)	Mole (2002)	Carter et al. (2002)	Chell & Bain (2000)	Verspreet & Berlage (1999)	Hill et al. (1999)	Bennett & Robson (1999)	Kirby & King (1997)
Customers		+		71			47	
Suppliers		+		47		+	36	
Family/Friends	68				+	+	38	
Business Associates				57				
Employees (Former)				37				
Banks	90	+				+	62	77.4
Accountant	94	+	77.1			+	83	90.4
Solicitors	31	+				+	56	93.5
Consultants	19		7.3		+	+	32	
Universities/Colleges								45.1
Trade/Professional Associations	24			35	+		31	
Chamber of Commerce				38	+		23	
Business Link	19 (SBDC)	+	11.1		+		27	
Government Agencies:	29	+	14.4 (DTI)	17 (DTI)		+	33.3 (LEC)	54.8
NGO/Donor Governments					+			
Venture Capital		+						
Business Angel								
Others Sources							95	19.3
Definition of small business (Employees)	1-4			0-9	2-100	4-28	1-500	1-50
Number of Respondents	68		18561	104	140	5	2,547	64
Study Area	Australia	Britain	UK	UK	Tanzania	N. Ireland	Britain	Britain
Methodology	Survey	Survey/ case study	Survey	Survey/ case study	Survey	Case study	Survey	Survey

+ sign indicates that the level of use of business advice was not measured directly.

These additions are the bilateral and multilateral donors that provide extensive support to small businesses through private institutions, business associations and the non-governmental organisations in most developing countries (Mkandawire, 1999; McPherson, 1996).

The term professional specialist was used by Bennett and Robson (1999) to refer to accountants, solicitors and the banks and the nature of services provided by these professionals to small businesses were more of a technical nature rather than about general management advice. A study by Burke and Jarratt (2003: 134) demonstrated the type of advice provided by the professional specialist such as accountants. '*Our accountant does all the books...Sometimes he give me some advice, for example, on hire purchase, or a loan but not on competitive strategic issues*'. Other respondents also pointed out that their *'accountants lacked the in-depth knowledge of their business to be credible source of strategic advice'*.

Other studies (Kirby and King, 1997; Hjalmarsson and Johansson, 2003; Gooderham et al, 2004) supported this view. Hjalmarsson and Johansson (2003) argued that the nature of advice provided by professional specialist was more of operational rather than strategic. Gooderham et al. (2004) also observed that small businesses used accountants to perform statutory duties and concluded that small businesses would employ accountants to undertake non-statutory duties under two main conditions:

1. 'That the statutory service of the authorised accountant must be perceived of being high quality'.
2. 'The small firm itself must have ambition to grow or develop in the sense that it is receptive to the advisory service being offered to it'.

Notwithstanding the above studies which demonstrated the inability of accountants to provide strategic advice, there are a myriad of published works that confirmed that professional specialists were the most used formal sources of external advice by small businesses in most countries (Bennett and Robson, 2003; Bennett and Robson, 1999; Kirby and King, 1997). The high usage rate of the professional specialist was explained in a study undertaken by Bennett and Robson (1999: 160) when they noted that:

'Accountants and solicitors work within a strong self-regulatory framework that offers professional status, level of trust and quality of control of advice that is not likely to be achievable in most other areas of advice because of lower levels regulatory and self-regulatory controls'.

Among the professional specialists, accountants are the most frequently used source of advice. A recent study undertaken by Ramsden and Bennett (2005) also confirmed that 'the most frequently used sources of advice are those from the private sector, particularly accountants and the solicitors'. A similar observation was also made by Burke and Jarratt (2004) although the study found that accountants were the least sourced for strategic decisions.

For the banks it has been observed that their relationship with small businesses have not been impressive. The perception of the bank managers and small business owner-managers was described by one study as 'critically mismatched' (Butler and Durkin, 1998). It has also been noted that the routine nature of the bank work makes it difficult to adapt to the informal style of the small businesses. Butler and Durkin (1998: 33) noted that 'in almost every aspect of the organisational structure and behaviour, the

Table 3.2 Classification of sources of external advice

Source: Adapted from Bennett and Robson (1999)

Market and supply chain	Social network	Professional specialists	Professional generalists	Business Associations	Government-sponsored schemes	Bilateral/ Multilateral agencies
Customers Suppliers	Friends Family Business associates	Banks Accountants Solicitors	Consultants Institutes of Higher Education	Trade Associations Professional associations Informal sector associations	<u>UK</u> Business Link LEC <u>Ghana</u> NBSSI GRATIS	APDF (IFC) Empretec (UNCTAD) TechnoServe (USAID) SPEED (GTZ and DANIDA)

typical bank and the typical entrepreneurial small firm are at opposite end continuum'. The main cause of the misunderstanding, according to some studies, is due to the lack of a deeper understanding of the operations of each other (Kasekende, 2001; Butler and Durkin, 1998).

In spite of the difficult relationship between small businesses and the banks in some countries, various studies undertaken to measure the level of satisfaction of the services that owner-managers received from their banks have revealed higher ratings (Bennett and Robson, 1999). The high satisfaction level could be explained as the result of the high institutional trust that the banks enjoyed. Furthermore, in some countries such as Germany, cordial relationships between the banks and the small businesses ensured a mutual benefit for both parties (Butler and Durkin, 1998).

For consultants, Bennett and Robson's (1999) classification of the sources of external advice described them as the professional generalists. A lack of financial resources to recruit expertise staff will generally require small businesses to outsource the services that they can not provide internally and this is where the role of consultants becomes important. Bennett and Smith (2004) noted that the main sources of consultancy services are the private and the government agencies. In most cases governments subsidise the fees charged by the private consultants to enable small businesses that may otherwise not be able to afford specific consultancy services which are key to their survival or competitiveness to obtain those services. For private consultants, their role in the provision of advice to small businesses has become important in recent years as most governments channelled the delivery of small business policies through them (Wren and Storey, 2002; McPherson, 1996).

Apart from the private consultancy firms that provide advisory services to small businesses, specific government agencies such as the Business Link in the UK and the Business Advisory Centre (BAC) of the National Board for Small Scale Industry in Ghana also provide subsidised consultancy services to small businesses in these countries. Although the functions of the BAC are not well defined as that of the Business Link.

The nature of advice provided by consultants is of strategic and the relationship between the consultant and the owner-managers has been described by some studies as weak (Burke and Jarratt, 2004). A similar observation was also made by Bennett and Smith (2004: 435) when they pointed that 'the delivery of the management consultancy and advice has considerable complexity and uncertainty from the client point of view'. This weak association is further compounded by the existence information asymmetry with the client knowing less of the outcome of the service than the consultant (Bennett and Smith, 2004).

Personal friends and relatives also served as informational sources for the owner-manager. The value placed on the information obtained from these sources is based on respect, trust, experience and business success (Burke and Jarratt, 2004: 135). Micro and very small businesses frequently obtained information from these sources (Bennett and Robson, 1999: 161) especially during their start-up stages (Hill et al., 1999: 77) although at the later stages of the business development, information would be sought from professional sources. Information obtained from personal friends and relatives is sometimes used for strategic decision's (Burke and Jarratt, 2004; Hill et al., 1999) although 'these contacts do not always have the necessary 'know-how' and the expertise' according to Hill et al. (1999: 77).

In Africa, the role of personal friends and relatives as a source of external advice can not be underestimated. In a survey of 26 tavern owners in South Africa, Morris et al. (1997: 89) found that most businesses involved in the survey had not used any professional advice or formal help at the start-up phases of their businesses, 'colleagues and business associations were the principal providers of initial help'. A similar study undertaken by Pentax Management Cosultancy Services (2005) in Ghana also found that personal friends and family have the most important source of external advice. A similar observation was made by Buame (1996) who found interpersonal relationships as the most important information source for small businesses in Ghana. The high level of trust and the low cost of accessing information from these sources are among the reasons why many small businesses rely on these sources as their main business information providers (Buame, 1996; Bennett and Robson, 1999).

Customers and suppliers have been found by some studies to be important sources of external advice on competitive and innovative related issues (Malecki and Poehling, 1999; Chell and Baines, 2000; Burke and Jarratt, 2004). Chell and Baines' (2000) study on the networking, entrepreneurship and micro-business behaviour in an interview of 104 entrepreneurs found that 73% of the respondents reported seeking advice from the customers. Similar observations were also made in studies undertaken in the UK (Bennett and Robson, 1999; Bennett and Robson, 2003) although Hill et al. (1999) found customers less important in the provision of external advice. Sverrisson's (1997) study in Ghana also found customers to be an important source of external advice. For suppliers, they are the main source of information on new technology and innovative activities (Bennett and Robson, 1999; Burke and Jarratt, 2004). Also suppliers sometimes provide training to small businesses.

Professional and trade associations also served as an important source of advice for small businesses. North et al.'s (1997) study on the relationship between small businesses and the trade bodies in the UK found that trade associations were the fourth most important source of external advice after business friends, suppliers and customers. Bennett (1998) identified about seven different types of business associations in the UK which included: associations of companies, associations of owner-managers, association of self-employed professionals, professional associations of individuals, mixed associations, federations, and chambers of commerce. Bennett (1998) noted that small businesses are mostly found within the associations of owner-managers or self-employed. Furthermore, informal sector associations (ISA), that is, the association of micro and small enterprises also play a significant role in small business development in Africa (Haan, 1999; Dijk, 1997).

The Chamber of Commerce is mostly locally based with variations in size, activities and geographical extent. The nature of services provided by business associations to members could be specific to individual member needs or general to its members. Technical advice is mostly provided to the members with the objectives of enhancing their competitiveness. Burke and Jarratt (2004: 135) found that industry associations provided 'credible and valuable sources of market intelligence and marketing/logistical advice, providing a window to the broader marketplace'.

In Africa, it appears that there is lack of empirical studies on the role of business associations in the provision of business advisory services to small businesses (Brautigam et al., 2002). The role of business associations as an external advice provider in recent years is gaining policy makers' attention although their contribution had not been significant in the recent past (Leonidou and Adams-Florou, 1999; Haan, 1999). For instance, Haan's (1999) study in Africa found that bilateral and multilateral donors often use business associations to administer their business advisory projects in Africa.

A lack of resources has been pointed out as one of the contributory factors that have affected the capacity of trade and professional associations in Ghana to provide advisory and business information services to their members and also to provide an effective advocacy role (Aryeetey and Appiah, 1995). Bennett (1998: 243) also concluded that 'the contribution by association through specific services to individual companies appears to be relatively limited'.

Public sector support has been found to be an important supplier of external business advice in many countries. Wren and Storey (2002: 334) observed that 'virtually all industrialised countries used taxpayers' money to offer 'soft' business support to small and medium sized enterprises'. Massey (2003) also pointed that in recent year's governments and other industrial organisations encourage small businesses to access new knowledge, adopt new technology and become more innovative and this objective has provided the basis for a number of public funded programmes. These programmes are provided by government agencies such as the Business Link in the UK or the Business Advisory Centre of the National Board for Small Scale Industries in Ghana. In some cases private sector organisations provide the services that are subsidised by the government.

Notwithstanding the important role that government agencies provide in terms of the provision of advisory services in many countries, a number of studies have confirmed that the use of advisory services provided by the government agencies is very low as compared to the private sector sources (Mole, 2002; Ramsden and Bennett, 2005;

Bennett and Robson, 2003; Jay and Schaper, 2003). For instance, Bennett and Robson (2003) put the contribution of the private and the public sector to the supply of the external business advice as 84% and 14%, respectively in Britain. In Africa, the role of the public sector as a provider of advisory services to small businesses is not as substantial as that of the industrialised countries. This is due to the lack of clear government policy on small business development. There has been a proliferation of different advisory programmes by different actors (bilateral and multilateral donors, government agencies, private sector organisations) with a lack of coordination which sometimes leads to conflicts of objectives (Mkandawire, 1999).

3.5.1 The demand for external advice

There are several studies that have examined the factors that influence the demand for external advice (Malecki and Poehling, 1999; Bennett and Robson, 2003b; Johnson et al., 2004; Burke and Jarratt, 2004). While some researchers have attributed the recent increase to the competitive nature of today's business environment (Bennett and Robson, 2003b) others have ascribed it to the high rate of the technological change (Burke and Jarratt, 2004) which drives small businesses to seek external advice. This section attempts to examine the factors which influence the demand for external advice from two perspectives, namely, the business and the owner-manager.

3.5.2 The influence of the business on the use of external advice

There are some studies that have established a significant statistical relationship between the characteristics of the business and the use of external advice (Malecki and Poehling, 1999; Bennett and Robson, 1999; Lambrecht and Pirnay, 2005; Johnson et al, 2004). Bennett and Robson (1999) found the size of the business as the most important factor to influence the use of external advice. However, in a recent study Johnson et al. (2004) concluded that businesses that were more likely to use external advice could be of any size or age, were located in an urban area, were more innovative, more likely to be involved in the R&D, have plans to grow in terms of employment and to seek expansion to new geographical markets, and were more likely to be experiencing difficulties in recruiting new employees.

With regard to the size of the firm and the use of external advice Johnson et al.'s (2004) conclusion is debateable since a number of studies have found the size of the business to be significantly associated with the use of external advice (Lambrecht and Pirnay, 2005; Wolf, 2004; Bennett and Robson, 1999). Other factors such as the sector of the business, whether the business is involved in the innovative activity or R&D, export activity, and employment growth are found to be significantly associated with the use of external advice (Bennett and Robson, 2003b; Freel, 2000). However, the location of the businesses has been found to be less likely to influence the use of external advice (Bennett et al., 2001).

3.5.3 The influence of the owner-manager and the use of external advice

With regard to the characteristics of the owner-manager, factors such as education, age, the gender, and the number of years the owner-manager has been in business were found to be significantly associated with the use of external advice (Lambrecht and Pirnay, 2005; Hjalmarsson and Johansson, 2003; Malecki and Poehling, 1999; Kirby and King, 1997). Owner-managers with higher levels of education and also female owner-managers were more likely to seek and use external advice (Lambrecht and Pirnay, 2005). Owner-managers with business experience were found by Kirby and King (1997) to be less likely to seek advice from accountants.

Furthermore, studies undertaken by Malecki and Poehling (1999) and Hjalmarsson and Johansson (2003) have examined the personality and the identity of the owner-manager and the use of external business advice. Malecki and Poehling (1999) pointed out that the personality of the owner-manager determines the personality of the business which also influenced the use of information by the business. Malecki and Poeling (1999) argued that the business personality could be classified as 'extrovert' and 'introvert'. Their study concluded that businesses classified as 'extrovert' were more likely to rely on external advice from all sources with the exception of sources from 'other firms' and the internet than the 'introvert' businesses.

In a more recent study, Hjalmarsson and Johansson (2003) also used the concept of 'client identity' to explain how the owner-managers respond to advisory services. Their study also identified three client identities such as 'anti-client' (refers to the manager who defines him/her self as a non-receiver of consulting services), the 'consultant modifier' (refers to someone who defines and re-defines the essence and meaning of consulting functions), and 'ideal client' (has accepted that he/she has a need, and use, for advice).

3.6 The impact of external advice on the performance of small business

The proliferation of the external support schemes in recent years by both public and private organisations and the huge amount of public funds used to support these schemes called for a critical evaluation to determine whether the taxpayers' money is used efficiently. This section examines the impact of the various schemes on small business performance. More recently, a myriad of studies have examined the impact of the external advice and training on small business performance (Bennett and Robson, 2003; Mole, 2000; Wren and Storey, 2002; Ramsden and Bennett, 2005; Lambrecht and Pirnay, 2005). In spite of these development on the subject, it has been pointed out by some studies that academics have been slow in responding to this call by way of developing appropriate methodologies in measuring the impact of the various schemes on the beneficiaries performance (Storey, 2000; Wren and Storey, 2002; Lambrecht and Pirnay, 2005). Storey (2000: 176) had this to say in respect of the above statement, '*Given the huge variety of schemes, the diversity of countries in which these schemes are found and often inflated claims on the part of those administering the schemes for their effectiveness, it is disappointing that the academic community has been rather slow in seeking to address this area*'. The above statement by Storey (2000) can be interpreted as being very critical of Africa and Ghana in particular where comprehensive independent theoretical and empirical studies are absent.

Notwithstanding the above criticism, there are a number of studies in most European countries and the US that have examined the impact of external business support extensively in recent years using a range of statistical techniques (Lambrecht and Pirnay, 2005; Burke and Jarratt, 2004; Ramsden and Bennett, 2005; Storey, 2004; Chrisman and McMullan, 2004; Bennett and Robson, 2003; Wren and Storey, 2002; Mole, 2002). In Africa, similar studies appear to be non-existence as the available literature has been based on the reports initiated by the service providers (Verspreet and Berlage, 1999; Gibson, 1999, van Bussel et al. 2001) and other desk top research (Dawson, 1997; Manuh, 1999; Rogerson, 2001).

The impact of the external advice to small business performance has been a subject of considerable debate by academics. Some researchers are of the opinion that external advice to small businesses makes little or no impact on the performance of the small businesses (Westhead and Storey, 1996; Manuh, 1999; Mambula, 2004; Lambrecht and Pirnay, 2005). Westhead and Storey (1996: 21) concluded that '*careful empirical research has failed to link the provision of management training to small firms to enhanced performance in the recipient firms*'. On the other hand, researchers such as Chrisman and McMullan (2004), Cosh et al. (2002), Bennett and Robson (1999), and Ramsden and Bennett (2005) have found significant association between the use of external advice and small business performance. Chrisman and McMullan (2004) in their survey of the literature argued that in the United States a considerable number of studies have indeed established a relationship between the use of external advice and the performance of the small businesses. It is important to note that Lambrecht and Pirnay (2005: 105) on the review of the literature on the impact of the use of external advice and small business performance pointed out that the literature provides mixed results, '*In the UK, there is research indicating a positive, a partial or no impact on subsidised private external consultants on SMEs growth*'. Nevertheless, their study found no significant impact with regard to the use of external consultancies on net job creation, turnover, or financial indicators.

Furthermore, evidence from the literature revealed two main approaches in measuring the impact of the use of external advice on the performance of small businesses. The first method is the subjective method or the 'soft' outcomes (Ramsden and Bennett, 2005). This method tends to seek the perception of the owner-manager and the impact is measured by the level of satisfaction using five points 'Likert' scale.

Available information from the literature revealed that most studies have reported high level of satisfaction although Storey (2004) argued that a high level of satisfaction does not necessary translate to the higher impact on the business performance. Table 3.3 provides a summary of previous research. The second method is the objective or 'hard' approach. This approach measures the impact of the use of external advice at the business level. Here changes in the business level variables such as employment, turnover, profit, innovativeness, export potential and growth are measured to determine if the business performance has changed after the external advice had been sought and used. However, establishing whether it is the use of business advice, or other factors which have produced changes in the businesses is difficult to establish.

According to Patton et al. (2000) there are substantial problems in establishing a link between external advice or training and business performance because of the difficulty in isolating the relevant variables and methodologies employed in investigating the relationships. Other factors could be linked to different economic, political or cultural factors among countries where such studies were undertaken. Westhead and Storey (1996) also observed that the lack of a link between use of business advice or training and performance could include the difficulty in attributing cause and effect. By using McMullan et al. (2001) three measures of evaluation (subjective, attribution and objective), it is hoped that the findings of this study can provide evidence about the relationship between the use of external advice and business performance. Furthermore, the use of Heckman (1997) instrumental variables technique in examining the relationship among the use of business advice, owner-manager and business characteristics, business strategy and growth in employment could help to consolidate the initial findings using McMullan et al. (2001) three measures of growth.

Table 3.3 Satisfaction with Business Advice in Previous studies

Source /Author(s)	Ramsden & Bennett (2005)	Pentax Consultant (2005)	Jay & Schaper (2003)*	Burke & Jarratt (2004)*	Bennett & Robson (2003)	Mole (2002)*
Accountant	92.2	89	+	+	3.0	+
Solicitors	90.1	85.7	+	+	2.7	+
Banks	84.7		+	+	2.7	+
Consultants	89.9	70.7	+	+	2.9	
Customers	97.8			+	3.2	+
Suppliers	100			+	2.7	+
Family/Friends	100		+	+	2.9	
Venture Capital	66.7				2.6	+
Business Angel	100				3.1	
Business Associates				+		
Employees (Former)	99.7					
Trade/Professional Associations	93		+	+	2.5	
Chamber of Commerce	90.2		+	+	2.2	
Government Agencies:	93.6 (TEC/LEC)		+	+	2.7 (LLEC)	+
Business Link	63.5				2.3	+
Others	73.8		+			
Universities/Colleges	72.7					
NGO/Donor Governments						
Definition of small business (Employees)	5-100	1-29	1-199	1-30	1-500	
Number of Respondents	194	300	68		2,127	
Study Area	UK	Ghana	Australia	Australia	Britain	Britain
Methodology	Survey/ Case study	Survey	Survey	Case-study	Survey	Survey/ Case study

+ sign indicates that the level of satisfaction was not measured directly.

Table 3.3 Satisfaction with Business Advice in Previous studies

Source /Author(s)	Chell & Bain (2000)*	Verspreet & Berlage (1999)*	Hill et al. (1999)*	Bennett & Robson (1999)	Kirby & King (1997)*	Carter et al. (2002)
Accountant			+	3.1	+	68
Solicitors			+	2.8	+	
Banks			+	2.7	+	39
Consultants		+	+	2.7		18
Customers	+			3.2		40
Suppliers	+		+	2.8		36
Family/Friends		+	+	3.0		30
Venture Capital						
Business Angel						
Business Associates	+					37
Employees (Former)						
Trade/Professional Associations		+		2.4		38
Chamber of Commerce		+		2.2		
Government Agencies:			+	2.4 (LEC)	+	10
Business Link		+		2.4		
Others						
Universities/Colleges					+	
NGO/Donor Governments		+				
Definition of small business (Employees)	0-9	2-100	4-28	1-500	1-50	
Number of Respondents	104	140	5	2,547	64	18561
Study Area	UK	Tanzania	Northern Ireland	Britain	Britain	UK
Methodology	Survey/case study	Survey	Case study	Survey	Survey	Survey

+ sign indicates that the level of satisfaction was not measured directly.

Notes for Table 3.3:

- *All the studies where the values were not provided did not directly measure the levels of use or impact of external advice.
- Ramsden and Bennett (2005) measured both impact and satisfaction levels. However, the values reported above represent the percentage of respondents who reported "satisfied and very satisfied".
- Bennett and Robson (2003; 1999) assessed the impact of source of advice on a five point scale (no impact, little impact, moderate impact, important impact, and crucial impact).
- Carter et al. (2002). The level of satisfaction was measured based on the percentage of respondents who indicated satisfied and very satisfied. This was based on a 7 point scale.
- Pentax (2005) measured the level of satisfaction based on the impact of external support on meeting regular business requirement. This was based on a three point scale (unimportant, somewhat important, and quite important). The reported values were based on respondents who indicated somewhat important and quite important.

Abbreviation
DTI – Department of Trade and Industry
TEC – Training and Enterprise Council
EAS – Employment Agency Service
SBDC – Small Business Development Corporation

3.7. Business support schemes in Ghana

The proliferation of external business support initiatives in many sub-Saharan African countries (Mkandawire 1999; Manuh 1999) appears to suggest an increased interest by governments and other development partners in promoting the development and growth of small businesses. The change in the direction of policy in favour of small businesses could be explained from two main perspectives. Firstly, following the unsuccessful attempt by many sub-Sahara African countries to develop their economies through large scale import substitution industries immediately after independence in the 1950s and 1960s, the need to develop small scale industries became a major priority for many countries in the 1970s (Rogerson 2001; McPherson 1996; McKenzie 1990). Secondly, the contribution of small and medium-sized businesses towards the transformation of the South-East Asian economies (Kim and Nugent, 1994) also created the awareness about the potential role that small businesses could play in terms of job creation and equitable distribution of income.

Despite the numerous initiatives and the huge amount of the taxpayers' money used to support the various schemes, academic research had lagged behind the amount of resources invested into these schemes (Storey, 2004) and the situation is worst in the African context. The next section therefore attempts to examine the business support environment and the origin of small business support schemes in Ghana, the nature of public and private support organisations in Ghana, and finally, a review of NBSSI and Empretec Ghana Foundation are undertaken.

3.7.1 The business support environment in Ghana.

The role of small scale businesses as an absorber of the unemployed goes back as far as 1940 (Ninsin, 1989) although there was no major attempt by the colonial government (Britain) to develop the indigenous industry (Asamoa, 1996: Aryeetey and Ahene, 2004). Following the taking over of internal administration of Ghana by the Convention People Party (CPP) led by Dr. Kwame Nkrumah there was no change in the policy direction. The first ten-year development plan by the CPP government focused on the development of large-scale industries. The subsequent Seven-Year Development Plan (1963/64 to 1969/70) by the CPP government recognised that the small-scale industrial enterprises employed about 53% of the Ghana industrial labour force. However, in spite of this recognition there was no concrete effort to support that sector during the seven-year period. The government policy on industrialisation was focused on the development of large scale import-substitution industries in order to meet the growing demand for the imported consumer goods by the Ghanaian consumer.

'*In order to correct this imbalance between domestic production and demand therefore the types of industries that will be promoted and the subsequent development plans will in general be on the larger scale than the types that have hitherto characterised industrial activity in Ghana*' (Ghana Seven-Year Development Plan [1963/64 to 1969/70] : 90). Clearly, the above statement indicates the lack of interest of the CPP government in promoting the small scale businesses as a strategy for the nations' industrialisation process. During the mid 1960s, the falling of the foreign exchange earnings from cocoa proceeds could not sustain the local industries which relied on imported raw materials and spare parts for their operations (Aryeetey and Ahene, 2004). The end result was the closure of most factories which led to mass unemployment. As Asante et al. (2000: 246) observed 'in Ghana the import substitution industry was deemed to have failed by mid to late sixties'.

3.7.2 Small business development policy after CPP regime

After the overthrown of the CPP government by the National Liberation Council (NLC), the NLC government enacted the Ghanaian Enterprise Decree (NLCD 323) in 1968. The main objective of the decree was to promote the development of indigenous industries. There was no major change in the fortunes of small businesses as a result of the enactment of the decree as the institutional structures to ensure implementation of this policy remained the same (Ninsin 1989). However, in 1970 the United Party (UP) government led by Dr. Kofi Abrefa Busia highlighted the need to support small scale businesses in their One-year development plan [1970-1971] (Asamoa, 1996). In furtherance of this objectives, the Ghanaian Business Promotion Act 1970 (Act 334) was passed and the setting up of the Business Promotion Office followed (Ninsin, 1989; Asamoa, 1996). The main objective of the Act was to promote the development of small scale industries. The passage of the Act saw the establishment of the first Small Scale Business Loan Scheme, although there was not enough evidence to suggest that small scale businesses did benefit from the scheme as pointed out by Ninsin (1989: 266) '*indeed the whole orientation of public policy was so biased against small businesses that even small scale business scheme did not benefit them*'.

After the overthrow of the Busia government in 1972, the National Redemption Council (NRC) which assumed the internal administration of the country gave a great impetus to the small businesses in their Five-Year Development Plan (1975/76 to 1979/80). The Ghanaian Enterprise Development Decree 1975 (NRCD 330) and the

Ghanaian Enterprise Development Commission (GEDC) was established to replace the Business Promotion Office. The GEDC was charged 'to draw up and implement a comprehensive programme, embracing financial, commercial and technical assistance schemes, aimed at the development of small-scale Ghanaian enterprises' according to the Seven-Year Development plan. There were three specific objectives of GEDC according to Ninsin (1989). Firstly, to provide credit facilities to small businesses. Secondly, to promote the technological development of small businesses through the provision of information on projects' viability, technical advice on inputs and output related issues, and equipment requirements. Thirdly, to provide services to small businesses in the form of advice on efficient management practices, training on basic record keeping and costing, and training on procurement management.

Surprisingly, there was no evidence to show that the commission was able to discharge its mandate of promoting the technological development of small businesses or the provision of extension services to small businesses (Ninsin, 1989). However, the GEDC was able to grant loans to Ghanaian businesses although the conditions attached to the loan applications disqualified most small businesses, hence, only a few small businesses benefited from the scheme. It is important to note that the inability of the GEDC to fully discharge its mandate could be attributed the lack of resources (human and material) and the poor institutional structures which existed at that time.

Apart from GEDC which acted as the government agency in promoting the development of small businesses in Ghana, there were other institutions which supported the development of small businesses through the provision of advisory and consulting services during the 1970s. For instance, the Technology Consulting Centre (TCC) was set up in 1972 at the University of Science and Technology to develop the appropriate technology and transfer to the small businesses. The National Investment Bank through their Development Service Institute also provided advisory and consultancy services to number of businesses although not many small businesses benefited from their services. The Ghana Export promotion Council was also set up in 1969 by NLC Decree 396 with the main objectives of promotion and the development of non-traditional export (Ninsin 1989).

3.7.3 Small business development policy since 1980

Following the implementation of the Economic Recovery Programme (Steel and Webster, 1992) in 1983 and the near collapse of the economy, the People National Defence Council (PNDC) government initiated a number of programmes designed to assist the development and growth of small businesses. The first major step taken by the government was the establishment of the National Board for Small Scale Industry (NBSSI, 2002) in 1985 although the Act 434 which gave the legal backing to the board was passed by the Parliament of the Third Republic in 1981 (Ghana Integrated Industrial Policy for Increased Competitiveness Pt. III, 2002: 18). The main objective of the board was to serve as the highest government body to 'assist the Ministry of Trade and Industry (MOTI) in the formulation, development, and implementation of national programmes aimed at accelerating the growth of small-scale industries in Ghana'. Considering the objectives of the Act 434 might probably imply the replacement of the GEDC which had served as the main agency in promoting the development of the small scale businesses. Nevertheless, GEDC continued to operate after the passage of NBSSI Act until 1991 when the two organisations were merged and retained the name NBSSI.

Before the establishment of NBSSI, government support to small businesses had focused on the provision of credit facilities (such as, the Small Business Loan Scheme and Funds for Small and Medium Enterprise Development) with less emphasis on the development of the technical and managerial development of small businesses (Ninsin 1989). The subsequent years following the establishment of NBSSI have seen a number of public support organisations being set up by the government especially in the 1990s and these include: Ghana Regional Appropriate Technology Industrial Services (GRATIS), and Export Development and Investment Fund (EDIF). According to Aryeetey and Ahene (2004: 1) the main purpose of these public organisations is to develop an enhanced environment for the functioning of private enterprises, most of which are SMEs. Table 3.4 provides a summary of the various government schemes set up to provide external support to small businesses in Ghana. In recent years government policies such as the Ghana Poverty Reduction Strategy [GPRS] (2002) and the Ghana Integrated Industrial Policy for Increased Competitiveness [GIIPIC] Part III (2002) have not established any new initiatives from the NBSSI Act of 1981.

With regard to the private sector support organisations the Africa Project Development Facility (APDF) 2002 report documented about 48 donor support programmes alone in Ghana. There are other private sector small business support programmes which were not captured by the APDF (2002) report especially the Non-Governmental Organisations (NGOs). Some of the notable private sector support organisations include Empretec Ghana Foundation, TechnoServe, African Development Foundation, and African Project Development Facility. Table 3.5 provides a summary of some of the most important private sector support organisations in Ghana.

Table 3.4 Types of Public Sources of Advice

Schemes	NBSSI	GEPC	GRATIS	EDIF
Year of establishment	Board was established in 1985 due to the passage of Act 434 in 1981.	Established in 1969 by NLC Decree 396	Established in 1987	Established in 2000
Mission	To assist MOTI to formulate, develop, and implement national programme on small business growth.	Development and promotion of non-traditional exports	To develop an appropriate technology and transfer to small businesses.	To enhance economic growth of Ghana by providing funds on concessionary terms for the development and promotion of the country's exports.
Sources of Funds	GOG and Bilateral donors (GTZ, CIDA)	Government of Ghana (GOG)	GOG and Bilateral donors (GTZ, CIDA, DFID)	Government of Ghana
Types of Services	1. Business advisory service 2. Credit facilitation	1. General export information service 2. Advisory service 3.Market development 4. Trade facilitation 5. Export incentives schemes 6. Export Financing	1. Technology transfer 2. Training and advisory services. 3. Hire purchase and working capital	1. Export development and promotion facility 2. Credit facility
Target businesses	Businesses in the service and manufacturing sectors with less than 29 workers.	Non-traditional exporters	Micro and small businesses	Businesses in the Export sector
Operational Coverage	Offices are located in all the regional capitals and about 63 districts	Head Office located at Accra and three regional offices at Kumasi, Takoradi and Bolgantanga	Offices are located in the regional capitals.	One office at Accra

Sources of information: Ernst and Young (1997), Ninsin (1989), and Ghana Integrated Industrial Policy for Increased Competitiveness Pt. III (2002).

Table 3.5 Summary of the notable private sector support organisations in Ghana

Name	Empretec	ADF	TechnoServe	APDF	AGI	PEF
Year Established	1990 as a UNDP, Barclays Bank Gh. Ltd. and GOG project.	US government agency which started operation in Ghana in 1985	Established in 1971	APDF has been operating in Ghana since 1987	Established in 1958 as the Federation of Ghana Industries	Founded in 1994 by the private sector organisations
Mission	To build high quality, growth oriented, internationally competitive entrepreneurs.	To support the development and increase the competitiveness and profitability of indigenous SMEs	To build business that creates jobs, income, opportunity, and economic growth in developing countries.	To support the development of competitive African SMEs, working mainly through local institutions and consultant.	To develop quality service to member companies	To service the development needs of the private sector by influencing government policies and regulations in order to create enabling environment for the private-sector led economic growth strategy and national development.
Sources of Funds:	UNDP, World Bank, GOG, DFID, SSNIT, Barclays Bank and other private organisations.	GOG and USAID	USAID, Bilateral and Multilateral donors	IFC and donor governments	Members subscription, UNDP and donor governments	USAID, GOG, DANIDA and UNDP.
Types of Services	Training, consultancy and advisory services and financial services.	Focus on capacity building through training, interventions, Business planning, and provision of grants	1. Advisory services 2. Provision of finance 3. Business management training	1. Business advisory services. 2. Enterprise support services. 3. Skills development and capacity building.	Management training, export promotion service and organises trade fairs and trade delegations abroad, credit guarantee.	1. Institutional capacity development. 2. Training
Target businesses	Growth- oriented small businesses	SMEs with potential for growth	Small community-based enterprises	SMEs	Member of the association	PEF members and small scale businesses transitioning from the informal to formal sector.
Operational Coverage	*National and Regional level.*	*National level.*	*It operates at the local level.*	National level	National and regional level	National level

Apart from these private sectors support organisations there are other initiatives undertaken by the various industry and professional associations in terms of provision of advisory services to small businesses. Prominent among them are the Institute of Chartered Accountants Ghana (ICA) which provides training in book-keeping and costing to small businesses; Associations of Ghana Industries which have established Business Development and Services Centre to service the technical and the managerial needs of their members; the Private Enterprise Foundation which services to members of the foundation include training and advisory. The role of bilateral donors such as German Technical Cooperation (GTZ), The Danish International Development Assistance (DANIDA), Department for International Development (DFID), Canadian International Development Agency (CIDA) and others are also significant. For instance, establishment of Support Programme for Enterprise Empowerment and Development is joint initiative of the GTZ and DANIDA.

From the foregoing analysis of the government policies on small business development in Ghana since independence, it appears that there has not been a comprehensive government policy on small business development. Manuh (1999) noted that apart from South Africa and Kenya, there has not been a comprehensive policy on small business development in Africa. A lack of a clear policy direction and coordination in terms of small business development has resulted in the proliferation of a myriad of initiatives by government, bilateral and multilateral donors. The Ghana Integrated Industrial Policy for Increased Competitiveness Pt. III (2002: 4) reported 25 different government programmes in support of small businesses and APDF (2002) also documented 42 donor support programmes for small businesses in Ghana. Thus, there is a fragmentation of support services, and a duplication of support services (Manuh, 1999;

Mkandawire, 1999). Poor coordination of support programmes often exacerbates the situation as Harper and Soon (1979) observed in Ghana more than two decades ago.

The subsequence sections examine the NBSSI and Empretec Ghana Foundation schemes in detail because they are the main public and private sector schemes, respectively, in Ghana.

3.7.4 The National Board for Small Scale Industries (NBSSI)

The NBSSI is the main government institution set up to promote the development and growth of micro and small scale enterprises in Ghana. The board was established in 1985 by the Provisional National Defence Council (PNDC) government. The board was established as a result of the promulgation of a parliamentary Act 434 in 1981 by the parliament of the Third Republic under the People National Party government (Ninsin 1989). According to the GIIPIC Pt III (2002: 18) document the main remit of the board was 'to assist the Ministry of Trade and Industry (MOTI) in the formulation, development and implementation of national programmes aimed at accelerating the growth of small scale industries in Ghana'.

Until the launching of the Entrepreneurship Development Programme in 1988 (Ninsin 1989) and the subsequent merger with the GEDC and the establishment of the Business Advisory Centre (BAC) in Cape Coast in 1991 (Ernst and Young, 1997), NBSSI seemed to have been dormant during their initial stages of existence. There were four main objectives of BAC and these were as follows:

1. Facilitate the improvement of the environment for small-scale business creation and growth.
2. Provide tailor-made entrepreneurial, managerial and technical training.

3. Provide advisory, counselling and extension services.
4. Promote group formation and strengthening micro and small businesses associations.

In recent years the board has also established a credit unit which now manages other government credit lines for small businesses such as PAMSCAD. The board activities are targeted at micro and small businesses that are in the manufacturing or service sectors of the economy. A micro business is defined as an enterprise which employed between 1-5 workers with a capital base of $10,000 (excluding land and buildings) and small business employing between 6-29 workers with a capital base of $100,000 (excluding land and buildings).

In terms of the operations of the board, the board works directly under the MOTI and the highest decision making body of the board is the Board of Directors who are non-executive members of the organisation. With regard to the administration of the day-to-day activities of the organisation, the executive director is the head, followed by the deputy executive director and the departmental heads are next on the organisational ladder. The management committee also play an important role in the management of the board. At the moment, NBSSI business advisory centres operate in all the 10 regional capitals and 66 districts capitals throughout Ghana (NBSSI News, 2003). NBSSI activities are mainly sponsored by the Government of Ghana, however, the board has collaborated with some organisations to undertake various projects as summarised in Table 3.6.

Table 3.6 demonstrates some of the achievements of the board and also the crucial role that it continues to play in terms of small business development in Ghana. NBSSI has played an important role in terms of small business development through the

BACs and the Finance Unit and also with the support of its collaborating agencies since its inception. For instance, the IFAD/Republic of Ghana Rural Enterprise Project (2000: 30) made the following observation about BAC 'the BAC SSE development and support component is the most successful in the project'. NBSSI has a wealth of information on small business development in the country because of its numerous offices in all the regional capitals and most of the district capitals. In spite of these positive developments, NBSSI is plagued with a number of problems.

A study undertaken by Aryeetey and Ahene (2004: 9) observed that, 'although NBSSI is established purposely to help develop and promote the sector, it is, like most of the ministries, departments, and agencies, not adequately resourced with funds, logistics and people to be effective'. The above observation sums up the problems faced by the board. A similar observation was also made by the IFAD project on rural enterprise when NBSSI could not implement some of the specific aspect of the project because of the lack of requisite personnel (IFAD/Republic of Ghana Rural Enterprise project report (2000).

Table 3.6 NBSSI Collaborative projects

Name of the project	*NBSSI/GTZ Promotion of small and micro enterprise project	*Agri Entrepreneurship Training Project	**Rural Enterprise Project
Collaboration organisation	German Development cooperation (GTZ)	Nova Scotia Agriculture College, National Council on Women and Development, Tamale Polytechnic	International Fund for Agricultural Development (IFAD).
Source of Funds	GOG/German government	CIDA	IFAD and GOG
Objectives of the project	To contribute towards sustainable income and employment and a socially balance growth of the economy.	To train rural entrepreneurs in agro-processing to effectively manage their businesses and increase their income generating capabilities.	To increase the production base of businesses in the rural areas in order to increase income and employment.
Target small businesses	Micro and small businesses in the manufacturing and the service sectors.	Women in agro-processing businesses.	Small off-farm enterprises.
Types of services	Financial and business development services.	Training in book-keeping and costing, marketing, loan management and small business management.	Facilitating access to new technology through training and the provision of advisory and financial services. Supported the creation of new businesses.
Project duration	1998 to 2002	1997 to 2002	1997 to 2002
Coverage	NBSSI operation areas	Northern region (Savulugu/Nanton district).	Ashanti and Brong-Ahafo regions
Results	By December, 2002 an amount of ¢9.497 billion (£740,564.00) had been disbursed to 223 micro and small businesses.	Members of Women Weaving Association in Nanton district were trained in costing and pricing, marketing, small business management, finance and loan management.	BAC helped in the establishment of 1900 new businesses and also assisted over 4000 existing businesses as at 2000.
Remarks	Since 2003 the project had been administered by Support programme for enterprise empowerment and development (SPEED).	The project ended in 2002.	The original project ended in 2002.

Sources: *NBSSI News Volume 1 No. 8 December, 2002; ** IFAD / Republic of Ghana Rural Enterprise Project, Interim Evaluation Report, 2000.

3.7.5 Empretec Ghana Foundation (EGF)

Empretec Ghana Foundation is an umbrella of Empretec, an international entrepreneurship and capacity building programme which is currently operating in Africa, Latin America and Asia. The Empretec scheme was initiated by UNCTAD in 1988 and it coordinates the activities across the globe. In Africa, the Empretec scheme is operated in Ghana, Ethiopia, Nigeria, Zimbabwe, Botswana, Namibia, Mozambique and South Africa. Empretec programmes focus on entrepreneurship training, workshops and targeted at high growth potential SMEs.

The EGF was established in 1990 and its mission was, 'to build a high quality, growth oriented, internationally competitive entrepreneurs through training, business advice and access to technology and finance' (Ernst and Young, 1997). In the early years of its operation EGF focused its activities around entrepreneurship workshops and management seminars with a limited number of consultancy and advisory services. From 1994 to 1997 EGF saw tremendous growth and changed from a development project into an independent foundation, hence, the EGF (Gibson 1999). The target clients of the foundation include growth oriented small and medium-sized enterprises, local corporate organisations and international development agencies. The project activities focus on three core services - consultancy and advisory, finance, and training. Specifically, EGF focuses on growth-oriented enterprises in the manufacturing and service sectors of the economy (EGF Corporate Profile). The activities of EGF are sponsored by the UNDP, the World Bank, the EU and the Department for International Development (DFID) of the UK, The Social Security Bank, the Agricultural Development Bank, Barclays' Bank, and the Government of Ghana. Since 1994 the DFID has been the largest donor (Gibson 1999).

Administratively, the highest decision making body of the foundation is the 14-member Governing Board who were drawn from mostly the private and the government representative. The administration staff is headed by the Chief Executive Officer who is assisted by the five divisional heads in the area of training; consultancy and extension; corporate relations, planning and research; information technology; and finance and administration (Gibson 1999). EGF provides three main core services in the area of training, consultancy and advisory services and financial services. Table 3.7 summarises the main services provided by the EGF under the core services mentioned above.

The foundation has successfully managed some donor-funded projects on small business development in the country particularly, the DFID's Ghana Enterprise Development Project (GEDPRO) for nearly 8 years (EGF Corporate Profile). Other successful completed projects include the UNDP's Capacity Development and Utilisation Programme and the DANIDA's Private Sector Development Programme. In terms of the impact of EGF services on beneficially businesses, Gibson (1999) reported that businesses that used the services of EGF experienced a 12% growth rate in employment and a 25% growth in sales over a three-year period. Nevertheless, it is important to treat these figures cautiously since empirical studies on the subject have found it difficult to establish a link between the use of external advice and the performance of the business (Wren and Storey, 2002; Lambretch and Pirnay, 2005). Furthermore, the success story of the EGF could also be debated in the context that EGF targets growth-oriented businesses and successful businesses, hence, the likelihood of these businesses experiencing higher growth rates than the normal businesses.

Table 3.7 Types of services provided by EGF

Training	Consultancy and advisory Services	Financial services
Entrepreneurship development	Business diagnosis and Health checks	Loans
Business awareness	Business counselling	Credit facilitation
Managing your finance	Business plan preparation	Loan monitoring
Junior business seminars	Productivity improvement programme	Mutualistic Empretec Guarantee Association (MEGA)
Effective supervision	Foreign linkage and export development	Client accounting and book-keeping service (CABS)
Time management	Sub-contracting	
Customer care	Information technology awareness seminars	
Business growth	Empretec business network	
Customised management development seminars	Design and installation of information system	

Source: EGF Corporate Profile (Not dated)

3.8 Conclusion

This chapter has reviewed the literature on the external business support services and analysed the nature of external support services. It was found that external support to small businesses in recent years has focused on financial and non-financial services although in some African countries the provision of infrastructure had been included in the support. The need for government support to small businesses was also reviewed and it was found that most governments intervened in small business support programmes due to perceived 'market failure' (Wren and Storey, 2002). It is also evident from the foregoing analysis that the main rational of the Ghanaian government policy towards the support of the small businesses had been based on the social related issues such as employment and poverty alleviation (Ninsin, 1989; GPRS, 2002).

On the sources and the use of external advice, it was found that government sources were likely to be least sought (Ramsden and Bennett, 2005; Bennett and Robson, 1999). On the factors that influence the demand and the use of external advice, the review of the literature revealed that both the business and the owner-manager characteristics could influence the use of external advice. Specifically, factors such as the size, the sector, growth rate, and innovativeness of the business were found to be associated with the use of external advice. The characteristics of the owner-manager such as the educational background, gender, and the experience of the owner-manager were also correlated with the use of external advice.

On the review of the literature on the government policy of external support in Ghana, it is important to note that small businesses received a major policy attention in the 1970s when the UP government passed the Ghanaian Business Promotion Act of 1970 (Act 334). This policy initiative became necessary as a result of the failure of the CPP government to develop the economy through the large-scale import-substitution industries and the worsening economic condition thereafter. Subsequent years saw the setting up of the GEDC in 1975 and the NBSSI in 1985, respectively, and the merger of these organisations in 1991. A critical analysis of the government policies towards small businesses development since 1970s appears to reveal a social objective approach. The government policy objectives had focused on employment creation and the poverty alleviation (Ninsin, 1989; GHPIC Pt III, 2002). However, studies on small business policies in Western Europe and the lessons from the experience of the South-East Asian countries on small business development appear to demonstrate that such strategy is less likely to achieve its desire results (Johnson et al., 2000). In recent years the UK government policy on small businesses have moved from the social and employment issues in 1980s to economic growth and competitiveness issues (Johnson et al. 2000) and other European countries have adopted similar approach (Storey 1994). In Ghana the need to rethink about small business policy is more important because some studies found Ghanaian manufacturing companies to be less competitive on the international market (Soderbom and Teal, 2002) and less educated workforce (Frazer, 2005).

With regard to EGF and NBSSI, lack of empirical studies on the schemes prevented a comprehensive assessment of the impact of the schemes on small business performance in the country. Nevertheless, like most public and private support organisations in Africa, there was enough evidence to suggest that their impact had not been significant in term of the small businesses development in the country (Manuh 1999; van Bussel et al., 2001).

Chapter 4

Theories of Small Business Growth

4.1 Introduction

The significant role that growing small businesses plays in terms of job creation and market competitiveness has been recognised by both academics and the policy makers (Storey, 1994; Beck et al. 2005; Davidsson and Henrekson, 2002). Storey (1994: 113) demonstrated that 'out of every 100 small businesses, the fastest growing four firms would create half the jobs in the group over a decade'. Liedholm et al. (1994: 1179) found in seven African countries that only 0.9% of the small businesses that grew were able to increase in size to more than 10 workers and these businesses contributed to more than 20% of new jobs expansion. Beck et al. (2005:199) also noted that small businesses enhanced competition and entrepreneurship, hence benefiting the entire economy in terms of efficiency, innovation, and aggregate productivity.

For policy makers, the importance of growing businesses to the economy is apparent in the proliferation of initiatives that many governments have implemented which are designed to support the small business sector. For instance, the UK government policy on small business development has been focused on growing businesses (Audretsch and Thurik, 2004; Johnson et al., 2000). Similarly, Getz and Petersen (2005: 220) also reported that the EU member countries' small business support programmes appeared to focus on growth and job creation approach. Whilst in Africa, the evidence of policy makers' interest in promoting growing small businesses is demonstrated by the increasing investment by governments, multi-lateral and bilateral donors to small and medium-sized businesses (McPherson, 1996; Trulsson, 2002).

For academics, Smallbone and Wyer (2000: 209) noted that 'there has been probably more written about small business growth in recent years than any other aspect of the development or management of small firms'. Davidsson and Wiklund (1999) also support this assertion in their paper on 'Theoretical and methodological issues in the study of firms' growth'. However, academic research in this area has been limited to the developed economies with few studies focusing on businesses in developing and emerging countries. In spite of the increased interest of academics on small businesses growth, Garnsey (1998: 523) noted that the 'theoretical work at the micro-level on the origin and the growth of the firm remains sparse'. A similar assertion has been made by other researchers such as Weinzimmer et al. (1998) and Davidsson and Wiklund (1999) who noted the absence of theory on small businesses' growth. Barringer et al. (2005: 684) on the other hand, believed that the literature on rapid growth businesses is not fragmented and immature, but rather converging and provides a valuable advice to owner-managers who want their businesses to grow.

Notwithstanding the apparent lack of theory on small businesses growth, this chapter will examine the various theories that have attempted to explain the growth of small businesses. The chapter will also review extensive literature of empirical studies on the determinants of small businesses growth. The importance of empirical studies on the development of theories of growth was highlighted in the works of Sutton (1997) and Priem and Butler (2001b). For instance, Sutton (1997: 42) noted that the development of the literature on theories of growth had involved a continue interplay between theoretical modelling and empirical evidence. The chapter is organised by looking at the measures of small business growth in section two. This is followed by the review of literature on various theories of small business growth at section three, while section four will examine the empirical evidence of the determinants of small businesses growth and finally, conclusion is drawn.

4.2 Measures of growth

Measuring the growth of small businesses has varied from one study to the other (Weinzimmer et al., 1998) and there is no universal method of measuring the growth of small businesses (Barkham et al., 1996; Rodriguez et al., 2003). A lack of a universal approach in measuring the growth of the small businesses has been attributed to the many factors that influence the growth of small businesses (Robson and Bennett, 2000; Garnsey, 1998). Weinzimmer et al. (1998) argue that a lack of consistent measures can impede the development of theory. Some studies have also noted that a lack of consensus on measuring the growth of small businesses has impacted negatively on the development of theoretical framework in measuring small businesses growth (Rodriguez et al., 2003; Stel and Caree, 2004).

There are various methods employed by researchers in measuring the growth of small businesses and this is mostly influenced by the researchers' background (Barkham et al., 1996). These methods include the number of people employed, the sales turnover, the profitability and the total assets (Robson and Bennett, 2000; Weinzimmer et al., 1998; Davidsson and Wiklund, 1999). Barkham et al. (1996) noted that researchers with accounting backgrounds would be more likely to use profitability or the asset value of the business while those with economics backgrounds would prefer to use the number of employees. Furthermore, Robson and Bennett (2000) also argued that the nature of the research being undertaken influences the method employed in measuring the small business growth. For government policy researchers, the growth of small businesses is usually measured based on the changes in the number of employees, whilst the owner-managers are more likely to measure the growth of their businesses based on the firms' financial performance rather than changes in the number of employees (Smallbone and Wyer, 2000). Other measures have included productivity levels (Biesebroeck, 2005; Soderbom and Teal, 2002; Frazer, 2005), changes in market share or return on capital employed (Robson and Bennett, 2000).

Given the various measures of growth as indicated above, sales turnover has been identified by a number of studies as the most common measure of size and growth of small businesses (Whetten, 1987; Davidsson and Wiklund, 1999; Barkham et al. 1996). McPherson (1996) reported that the best basis of defining growth should either be sales turnover or profit. However, a lack of adequate information on sales and profits, combined with their susceptibility to reporting errors make the use of such values difficult in research undertaken in many developing countries, hence the use of employment as a measure of growth of small businesses in many African countries (McPherson, 1996; Mead and Liedholm, 1998; Wolf, 2004). Vaessen and Keeble (1995) also noted that using sales alone would be biased towards businesses in the manufacturing sector while the use of employment alone would favour businesses in the service sector.

Furthermore, Freel and Robson (2004: 562) reported that sales turnover and employment measures of growth, in developed nations, were relatively less controversial methodologically and data appeared to be easily available and therefore increasing the scope of cross-study comparability. Barkham et al. (1996) observed that in the long-run the movement in sales turnover and employment are correlated although such a relationship may differ in the short or medium term. This view was supported by Weinzimmer et al. (1998) who noted that sales and employment measures could be correlated empirically but did differ conceptually. Weinzimmer et al. (1998) therefore advised researchers to use theoretical considerations to select any measure of business growth. Davidsson and Wiklund (1999) also supported this view when they pointed out that when selecting appropriate indicators, theoretical considerations were necessary. Davidsson and Wiklund's (1999) study also demonstrated the relationship between suitable growth indicators and the unit of analysis in a tabular form as shown in Table 4.1 below:

Table 4.1 The relationship between unit of analysis and suitable growth indicators.

	Individual	Activity	Governance structure
Sales	High suitability	High suitability	High suitability
Employment	Low suitability	Limited suitability	High suitability
Assets	High suitability	Low suitability	High suitability

Source: Davidsson and Wiklund (1999: 24).

The two common approaches which are used to calculate the growth of small businesses are the absolute and the relative growth methods (Davidsson and Wiklund, 1999). The absolute growth method measures the growth rate by comparing the actual difference in business size from one period to another. That is, the difference between the start-up size of the business and the last year's size. Relative growth rate is the change in size by dividing absolute growth by the initial size of the business (Weinzimmer et al., 1998). The relative growth formula can be stated mathematically as:

$$G = (St^1 - St^0) / St^0$$

Where G refers to the growth rate, St^0 refers to the start-up size of the business and St^1 is the size at the end of a period. According to Weinzimmer et al. (1998) the relative measure of growth is the most used measure because the absolute measure method fails to capture any behaviour of growth during the middle period of the study.

To conclude this section, it is important to note that sales turnover and employment are the two most common measures of small businesses growth. However, researchers have been advised to use multiple measures of growth because they provide richer information and minimise the errors associated with the single growth measure (Davidsson and Wiklund, 1999 and Van Gelderen et al., 2000).

4.3 Theories of small businesses growth

Although the study of small business growth has received an unprecedented amount of attention by researchers in recent years (Smallbone and Wyer, 2000; Davidsson et al., 2002; Yasuda, 2005), evidence from the literature revealed that various theories of small business growth have been sparse (Garnsey, 1998) while Davidsson et al. (2002: 1) have described the various economic theories of growth as 'crude and contradictory'. Penrose (1995) noted that because many factors influence the growth of small businesses, it is difficult to explain small businesses growth with a single model. Early theories that have attempted to explain the growth of small businesses include the works of Gibrat's (1931) 'law of proportionate effect', Penrose's (1959) resource-based perspective, and Jovanovic's (1982) theory of 'noisy' selection. In an attempt to test the validity of these theories a number of empirical studies have been undertaken by researchers (Davidson and Wiklund, 1999; Weinzimmer et al., 1998; Whitten, 1987; Audretch, 1995; Orser et al., 2000;

and Almus and Nerlinger, 1999) to provide further explanation to these theories. However, others such as Storey (1994) have proposed a new framework for the study of small businesses growth.

4.3.1 Gibrat's (1931) Law of proportionate effect

Gibrat's (1931) law of proportionate effect is based on the stochastic framework which proposes that the growth of firms is based on random process. In other words, the growth of the firm is not influenced by the size but on chance (Almus, 2000; Barkham et al., 1996). The law is based on the principle that 'while there may be a large number of systematic factors affecting growth, collectively they exercise only a limited influence of firm's proportionate growth' (Ganugi et al., 2005: 107). Sutton (1997: 40) observed that 'Gibrat's law provided the first formal model of the dynamics of firm size and industry structure'.

Various studies have defined the law of proportionate effect in its strictest and weakest forms (Ganugi et al., 2005; Hart and Oulton, 1996). Ganugi et al. (2005: 107) noted that the Gibrat's law in its strictest form stipulates that 'the expected growth rate over a specified period of time is constant for all firms independent of their size at the starting point'. The growth here refers to both means and variances growth which imply that there is no statistical relationship between the size and growth (See, Sutton, 1997). In its weakest form Ganugi et al. (2005: 107) noted that 'Gibrat's law omits the assumption of serial uncorrelation in growth rates'. Sutton (1997) observed that Gibrat's law assumed lognormal in terms of firm size distribution. According to Simon and Bonini (1958: 609) 'a stochastic process (eg. simple random walk) that will generate the normal distribution of variate, of course, when applied to the logarithm of the variate generate log-normal'.

Ward and McKillop (2005: 1854) summarised the main tenets that underpinned the law of proportionate effect as follows:

1. that growth rates are independent of firm size;
2. that the variability of growth is independent of firms size; and
3. that growth does not persist from one period to the next.

Early empirical studies supporting the law of proportionate effect were based on the 'goodness of fit' of the size distribution. Gibrat (1931) first applied the law to income distributions and plant (establishment) in manufacturing units (Sutton, 1997: 41). Subsequent studies after Gibrat's work also appeared to validate the law of proportionate effect when it was proved that the expected growth rates were independent of the firms' size (Hart and Prais, 1956; Simon and Bonini, 1958). However, various studies undertaken during the 1960s found that the proportionate growth of large businesses was higher than the smaller businesses, hence, invalidating the law of proportionate effect (See, Sutton, 1997; Samuels, 1965). According to Samuels (1965: 111) one of the possible reasons why larger businesses were found to grow faster than the small businesses was due to the impact of the mergers and takeovers that had taken place in the later part of the 1950s. The conclusion drawn by Samuels (1965) study therefore appeared to suggest that Gibrat's law could still be applicable in circumstances where there were minimal influence of mergers and takeovers.

Sutton (1997: 43) noted that although Gibrat's law was found in the 1960s to lack empirical support, there was no clear alternative theory that was developed to explain the firm size and growth relationships. However, the literature on firm size and growth relationship during the 1960s to 1980s focused on the development of new stochastic models which aimed at improving the Gibrat's law of proportionate effect (Sutton, 1997: 43). The same period also saw a number of studies that used panel of firms in successive years to investigate the relationship between firm size and growth.

During the 1980s the pioneering works of Evans (1987) and Hall (1987) which were based on more complete data sets than those used in the past according to Cabral and Mata (2003) revealed an inverse relationship between the size and the growth of the firm. According to Sutton (1997: 45) the pioneering works of Evans (1987), Hall (1987) and others provided solution to the econometric problems that had been associated with the earlier models. Furthermore, their studies also unearth the significant roles that firm size and age play in terms of the growth of the firm which subsequently led to the researchers' interest in the development of new models of firms' growth (Sutton, 1997). In recent years, there has been a myriad of studies in both developed and developing countries that have examined the law of proportionate effect but have not been able to validate Gibrtat's theory (McPherson, 1996; Almus, 2000; Davidsson et al., 2002; Yasuda, 2005; and Calvo, 2006). These studies have revealed an inverse relationship between the size of the business and growth. Notwithstanding the above contributions, Chesher (1979) cautioned researchers to be careful about the inconsistencies in research results on the law of proportionate effect due to the use of ordinary least square estimates in cross sectional data.

4.3.2 The Resource-Based View (RBV)

The resource-based view theory employs the concept of internal resources of the firm to explain its performance. The resource-based view of the firm is based on the proposition that the internal resources of the business can influence its capacity to achieve higher growth (Davidsson and Wiklund, 1999: 11). In other words, a firm could attain a competitive advantage due to the internal resources available to it. The history of the resource-based view of the firm can be traced back to the seminal work of Penrose (1959) who argued that the environment in which small businesses operates can influence their growth and the difference between the growing businesses and non-growing businesses is the ability of the owner-managers to take advantage of their environmental opportunities. The types and amount of productive services within the business determine its ability to take advantage of the environmental opportunities (Penrose, 1995). According to Penrose (1995: 217) '[the] amount of resources administered by a firm has in itself a significant influence on the opportunities for expansion open to the firm'. Following Penrose's (1959) work, the contributions by scholars in the field of strategic management (See, Wernerfelt, 1984; Barney, 1986, 1991) heralded the development of the resource-based view theory. Wernerfelt (1984) and Barney (1991) studies highlighted the importance of the internal resources of the firm to the achievement of competitive advantage over its rivals. Other studies that made significant contribution to the development of the resource based-view theory included the works of Conner (1991), Lippman and Rumelt (1991) and Conner and Prahalad (1996).

Wernerfelt (1984: 172) defined resources as 'anything which could be thought of as a strength or weakness of a given firm'. These resources can be tangible or intangible assets that are owned by the firm permanently or semi-permanently (Wernerfelt, 1984). To Barney (1991: 101) 'a firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness'. Firm resources here are classified under three main categories of capital: physical capital, human capital and organizational capital resources. To achieve a competitive advantage, Barney (1991: 102) noted that a firm should 'implement value creating strategy not simultaneously being implemented by any current or potential competitors'.

In analysing a firm resource position and its market competitiveness, Wernerfelt (1984) employed Porter's five competitive forces as the basis for the analysis. The study used the concepts such as resource position barrier (ie. the ability of a firm to use its resource position to creates an entry barrier to a particular market), attractive resources (such as machine capacity, customer loyalty, production experience, technological leads), and mergers and acquisitions, to examine the various situations in which a firm could create a sustainable competitive advantage. Priem and Butler (2001a: 23) noted that one major contribution of Wernerfelt (1984) study was to highlight the importance of firm's resources along side product to firm's performance.

To Barney (1991) a firm could enjoy a sustained competitive advantage only after an attempt to duplicate its advantage by current and potential competitors had ceased and such an advantage continue to exist. In order for a firm to obtain a sustainable competitive advantage, Barney (1991: 105-106) noted that the firm resources must fulfil the following criteria:

1. Valuable: The firm resources must be valuable in order to exploit opportunities and/or neutralize threats in a firm's environment. A valuable resource should enable the firm to improve its efficiency and effectiveness.
2. Rare: The resources must be rare among current and potential competitors.

3. Imperfectly imitable: If a firm controls valuable resources and are not easily imitated by competitors it could serve as a source of sustainable competitive advantage.
4. Imperfectly substitutable: If valuable, rare, and imperfectly imitable resources could be easily substituted, then such resources can not provide sustained competitive advantage. In order to achieve sustainable competitive advantage the resources should lack the ability to be easily substituted by competitors.

The above criteria have been criticized by some studies as necessary but not sufficient condition for a firm to achieve a sustainable competitive advantage (See, Priem and Butler, 2001a and 2001b). Priem and Butler, 2001a: 28) have argued that 'statements from the RBV, dealing directly with competitive advantage, is not amenable to empirical tests'. Furthermore, Priem and Butler (2001b: 63) criticised Barney (1991) study of resource based view theory for making little contribution to the explanation or prediction of the competitive advantage of the firm but noted that 'RBV provides a more structured and detailed conceptualization of how and why any advantage once achieved, may be sustained'. Notwithstanding the above criticism, Conner and Prahalad (1996) observed that Barney's work on RBV provided a solid foundation for the development of RBV theory. Barney (2001) also responded to the issues raised by Priem and Butler (2001).

4.4.3 Jovanovic's 'learning' theory

The next theory of growth is Jovanovic's (1982: 649) theory of 'noisy' selection which was based on the proposition that 'efficient firms grow and survive; inefficient firms decline and fail'. According to Jovanovic (1982) businesses differ in sizes not because of the fixed capital structure but rather differences in the efficient levels of the businesses. Parker (2004: 208) noted that under Jovanovic's model owner-managers do not know their abilities when they start their businesses. However, as they continue to practice they learn about their abilities and the able ones survive and grow while those who were less able shrink and exit. McPherson (1996: 258) also noted that Jovanovic's (1982) model predicts the annual growth rate of a business as a function of the accuracy of the manager's predictions regarding its ability, as well as the price of the product. Sutton (1997: 47) also noted that Jovanovic's (1982) model provided a qualitative description of the process of excess entry followed by some exit although the model said little with regard to the size distribution of the firm.

However, this model has been criticised because it was based on the assumption that managers were born with an efficiency level and while they learn the levels of their efficiency over time they are not able to alter it (McPherson, 1996: 258). In spite of this criticism, Rodriguez et al. (2003: 292) and Parker (2004: 208) observed that a myriad of empirical studies have supported Jovanovic's model which has been described as the 'learning' theory.

4.3.4 Davidsson's (1991) theory of growth

In the 1990s a number of studies were undertaken in the area of small business growth with the aim of identifying the determinants of small businesses growth (Davidsson, 1991; Storey, 1994; Barkham et al, 1996; McPherson, 1996; Garnsey, 1998; Mead and Liedholm, 1998; Davidsson and Wiklund, 1999; Orser et al. 2000). For instance, Davidsson (1991) noted that an important determinant of actual growth of small businesses (managers or management team) is growth motivation. The study identified three determinants of growth motivations as, ability, need, and opportunity. The study found that need-related factors were the most important determinants of growth and growth motivations (Davidsson, 1991) and this finding has been supported by subsequent empirical studies (See, Swierczek and Ha, 2003, and Lee and Tsang, 2001). Davidsson (1991: 422) in summing up his analysis concluded that 'objectives measures of ability, need, and opportunity can explain a substantial share of the variations in actual (historical) growth'.

4.3.5 Storey's (1994) model of growth

Furthermore, the pioneering work of Storey (1994) which extensively reviewed the literature on small businesses growth categorised the factors that influence small businesses growth into three main groups, the characteristics of the entrepreneur, and the business and the business strategy. Storey (1994) developed a model of small businesses growth that brought together three major determinants of growth; firstly, the owner-manager which was the focus of Jovanovic's (1982) growth model and Davidsson (1991) motivational model; secondly, the internal resources of the business; and thirdly, the businesses strategy (Penrose, 1959). By bringing these key theories under a single study, Storey's (1994) growth model provided a comprehensive study of the determinants of small businesses' growth and had become one of the most prevalent framework used by many small business researchers across the globe (Barkham et al. 1996; Smallbone and Wyer, 2000; Davidsson et al., 2002; Freel and Robson, 2004).

4.3.6 Davidsson and Wiklund's (1999) theory of growth

For Davidsson and Wiklund (1999) the influence of small businesses growth was examined by synthesising the various theories of small business growth. In their study, small business growth was categorised into four main theoretical perspectives, that is, the resource based perspectives, the motivation perspectives, the strategic adaptation perspectives and the configuration perspectives. The resource based perspective was based on the pioneering work of Penrose (1959) discussed in the previous section of the chapter. With regard to the strategic adaptation perspective Davidsson and Wiklund (1999) explained that businesses have to develop appropriate strategies in order to perform and businesses that did not achieve consistency between the strategic orientation and the environment would be outperformed and eventually fail. This model is based on the assumption that businesses must adjust their strategies to the environmental conditions in order to achieve high performance.

Furthermore, the motivation perspective which was based on the work of Davidsson (1991) and examined in the previous paragraph was based on the premise that people with a high need for achievement perform better than others. Finally, Davidsson and Wiklund (1999) mentioned the configuration perspective that concerns the growth process of the business and measures the growth of the business through the various stages of its development.

4.3.7 Other theories of growth

Ardeshvili et al. (1998) on the other hand, classified the studies of small businesses growth into two groups, factors of growth studies and process of growth studies. The difference between the two is that factors of growth studies investigate the factors that bring growth to the organisation while growth process studies examine the effect of growth on the organisation (Ardeshvili et al. 1998). The configuration perspectives or the growth life cycle model has been used to explain the process of growth. This model provides an understanding of the problems that businesses face at the various stages of their development that require different managerial skills to manage them. For example, Kazanjian (1988) investigated the growth patterns of new ventures using the stages of growth model and found a partial link between dominant problems and stages of growth. Notwithstanding this finding, Storey (1994: 122) noted that the life cycle model of growth could not be applicable in reality and the 'model describes rather than predicting the growth of the small businesses'.

In addition to the recent growth models examined, Orser et al.'s (2000) study on the performance of small businesses further enhances our understanding of the growth of small businesses. Orser et al. (2000) classified small businesses' growth models into four main groups along the lines of Davidsson and Wiklund's (1999) work. The first classification was the growth process model which was based on the work of Kazanjian (1988) where four stages of small business growth was developed. The second approach to the study of small business growth was through an understanding of managerial decision making where small businesses performance appeared to correlate with managerial decision. The third theory according to Orser et al. (2000) was based on the behavioural, social and psychological sciences. The main assumption under this theory was that owner-managers' (entrepreneurs) initiatives stem from internal (psychological) and external (social) factors. This model is more associated with the motivation theory of growth discussed in the earlier section. However, the link between behavioural traits and performance was inconclusive (Orser et al., 2000). The fourth approach to the study of growth of small businesses was explained through the application of multi-disciplinary or interactive studies and was based on the work of Cregg and King (1988) that suggested that 'interrelationship among planning, market-oriented activities and the characteristics of the owner-manager influence financial performance of a business' (Orser et al., 2000: 44).

4.4 Empirical evidence of the determinants of small businesses' growth

In pursuit of determinants of small businesses growth various theories examined above have been developed to provide a better understanding of the determinants of small businesses growth. However, as pointed out by Davidsson et al. (2002) these theories have provided little explanation to the determinants of small businesses growth. Orser et al. (2000: 44) also noted that various theories developed to explain the growth of small businesses are sometimes at odds and none appeared to be entirely satisfactory. However, according to Orser et al. (2000: 44) the integrated approach appeared to provide 'the most realistic account of the differences among SMEs'. The integrated approach investigates the determinants of small businesses growth through a multi-disciplinary approach. Some empirical studies on small busines growth have demonstrated that using economics theories to explain the determinants of growth without acknowledging the influence of the owner-managers' motivation to start the business and their backgrounds, the internal resources of the businesses and the strategies adopted by the owner-managers would not provide a better understanding of the attributes associated with the small business growth (Davidsson et al., 2002; Barringer et al., 2005; Littunen and Tohmo, 2003).

In his study of understanding the small business sector, Storey (1994) identified three main components that influence small businesses' growth. These components are the characteristics of the owner-manager, the internal resources of the business, and the management strategy. Storey's (1994) model of growth is based on the assumption that small businesses could achieve high growth rates if the competencies of the owner-managers at pre-start, the internal resources of the businesses at-start and the management strategy post-start are combined in an appropriate manner. In the review of the literature on studies that have used quantitative research technique to investigate the determinants of small businesses growth, Storey (1994) identified fifteen factors associated with the characteristics of the owner-manager, six factors associated with the business, and fourteen factors with regard to the management strategy as shown in Table 4.2.

Following Storey's (1994) study, researchers have used the model to investigate the determinants of small business growth in many countries. Barkham et al. (1996) adopted Storey's (1994) growth model to investigate the determinants of small businesses growth in four regions of UK (Northern Ireland, Hertfordshire, Leicestershire, and Wearside). In the study of the small business growth in Sweden, Davidsson et al. (2002) used Storey's (1994) theoretical framework to investigate the factors that influence small businesses growth in Sweden. Orser et al. (2000) in a study of the determinants of small businesses growth in Canada coined the term 'integrated studies' to describe a framework that combines the characteristics of the owner-manager and the business strategies to investigate the determinants of small business growth. The composition of this growth model appeared to be similar to the three basic components of growth developed by Storey (1994).

Table 4.2 Factors influencing the growth in small businesses.

The entrepreneur /resources at pre-start	The firm characteristics at-start	Business strategy at post-start
1. Motivation	1. Age	1. Workforce training
2. Unemployment	2. Sector	2. Management training
3. Education	3. Legal form	3. External equity
4. Management experience	4. Location	4.Technological sophistication
5. Number of founders	5. Size	5. Market positioning
6. Prior self-employment	6. Ownership	6. Market adjustments
7. Family history		7. Planning
8. Social marginality		8. New products
9. Functional skills		9. Management recruitment
10. Training		10. State support
11. Age		11. Customer orientation
12. Prior business failure		12. Competition
13. Prior sector experience		13. Information and advice
14. Prior firm size experience		14. Exporting
15. Gender		

Source: Storey (1994: 123).

Furthermore, Barringer et al. (2005) in the study of the attributes that are associated with rapid-growth businesses in the United States also appreciated the need to study the factors that influence small businesses' growth in a multi-disciplinary approach. In demonstrating the attainment of this objective Barringer et al. (2005: 663) concluded that 'their findings resulted in the advancement of a conceptual model of the attributes of rapid growth firms in four areas namely, founder characteristics, firm attributes, business practices, and human resource management (HRM) practices'. In the study of high growth metal-based manufacturing and service businesses in Finland, Littunen and Tohmo (2003: 188) also noted that no single theory could satisfactorily explain small businesses growth and therefore used Storey's (1994) growth model as a framework for their study.

The following sections review empirical studies on growth after Storey (1994) and examine the elements of growth in three basic components, the characteristics of the owner-manager, the internal resources of the businesses, and the business strategy, which were identified by Storey (1994), to determine which ones have significant influence on growth. The review focuses on quantitative studies, particularly those which employed multivariate analysis. Studies using multivariate analysis have been singled out because many factors influence the growth of small businesses (Davidsson et al., 2002; Orser et al., 2000) and it is therefore more appropriate to examine all these variables together so that one could identify the factor(s) which significantly influence growth.

4.4.1 The characteristics of the owner-managers

Evidence from the literature revealed that various economics models used to explain the growth of small businesses have failed to provide a satisfactory explanation of the determinants of small businesses growth (Barringer et al., 2005; Barkham et al., 1996; Hall, 1995; Orser et al., 2000). This is because the proponents of these models have failed to take into consideration the influence of the owner-manager on small business growth (Davidsson et al., 2002; Rauch et al., 2005). However, evidence from the literature on small businesses' growth revealed that the personality and the background of the owner-manager indeed influence the growth of small businesses (Brown et al., 2005; Lee and Tsang, 2001; Rauch et al., 2005). Rauch et al's. (2005: 692) study found a direct impact of human capital variables on employment growth and the relationship was positive and significant. Furthermore, Hall (1995) observed that the psychology of the owner-manager can affect the performance of the business. Orser et al. (2000) also noted that researchers should not assume that the desire to grow is based purely on economic motives but should also take into consideration the psychological and social behaviour of the owner-managers.

Barringer et al. (2005: 666) provided three reasons to explain the importance of the owner-manager's characteristics in the study of small businesses growth. First, traits of the owner-managers influence the culture and the behaviour of their businesses. Second, potential investors and venture capitalist usually assess the viability of a new venture by evaluating the attributes of the owner-manager. Third, the backgrounds of the owner-managers have been found to have a significant influence in the success of a new venture. Storey (1994) also indicated that the owner-manager provides important managerial resources for the business, particularly when the owner-manager has an appropriate level of education and similar business experience before the start-up of the business.

There are a number of empirical studies that have confirmed the importance of the owner-manager on small businesses' growth. However, a comparative analysis of these studies is fraught with many problems (Weinzimmer et al., 1998; Davidsson et al., 2002; Barkham et al., 1996) because the majority of these studies were undertaken independent of each other (Storey, 1994: 125). Such problems include, different methods of measuring growth in terms of sales or employment, the period in which growth is measured, and whether growth rate is calculated based on absolute or relative measures. Weinzimmer et al. (1998) found that the relationships between the determinants of growth, as well as the amount of explained variance, depend on the specific approach used to measure growth. In order to overcome these problems, this study will review studies that measured growth by sales turnover or employment size. In terms of growth measurement, both absolute and relative measures of growth would be considered since some of the studies failed to disclose the appropriate method used in calculating growth.

Tables 4.3a and 4.3b provide a summary of the various studies that have examined the influence of the owner-manager's characteristics on small businesses growth. The literature reviewed focus on quantitative studies that have used cross tabulations or multivariate techniques as the method of analysis. This review has also been limited to the studies that used employment or sales turnover as measure of growth. As indicated in the previous section, sales turnover and employment were the two most common measures of growth by many researchers and policy makers.

In designing a framework for measuring the growth of small businesses, Storey (1994) identified 15 factors that were associated with the owner-managers prior to the start of the businesses that were likely to influence the growth of small businesses. However, empirical studies have demonstrated that less than one half of the factors actually had a significant influence on small business growth (Davidsson et al., 2002; Almus and Nerlinger, 1999; and Barkham et al., 1996). A review of empirical studies on small businesses growth since Storey (1994) which are presented in Table 4.3 shows that only six elements (motivation, education/training, prior business experience, age, gender, and number of founders) demonstrated significant associations with the growth of the businesses. The following sections examine the elements in detail.

Table 4.3a The Characteristics of the owner-manager.

	Liedholm (2002)	Mccormick et al. (1997)	McPherson (1996)	Littunen and Tohmo (2003)	Barringer et al. (2005)	Almus and Nerlinger (1999)	Barkham et al. (1996)
Motivation				+	+*		
Unemployment push				—			
Education/training		+	+	+	+		x
Management experience							x
Number of founders					X	+**	
Prior-self employment							
Family history							
Social marginality (Ethnic)		x	x				
Functional skills						+	
Training			+	+			
Age		x				—	—
Prior business failure							
Prior sector experience			+		+		x
Prior firm size experience							
Gender	+		+				
Unit of Analysis	Multivariate	Multivariate		Multivariate			
Study Area	5 Southern African countries	Kenya	5 Southern African countries	Finland	US	Germany	UK
Sample size	N/A	40	N/A	86	100	32045	172
Measure of growth	Employment	Employment	Employment	Sales	Employmen t/ Sales	Employment	Sales/ employment

Notes: *Entrepreneurial story. ** Confirm only in the manufacturing sector.
Key: + Positive relationship between the element and growth of the business; — Negative relationship between the element and growth of the business. X No significant association between the element and growth.

Table 4.3b The Characteristics of the owner-manager.

	Mead and Liedholm (1998)	Roper (1999)	Rauch et al. (2005)	Almus (2002)	Brown et al (2005)	Lee and Tsang (2001)
Motivation						+
Unemployment push						
Education/training		+	+	+	+	—
Management experience						
Number of founders		x	+	x		+
Prior-self employment						
Family history						
Social marginality (Ethnic)						
Functional skills			+			
Training						
Age		—			—	
Prior business failure						
Prior sector experience		x	+			+
Prior firm size experience						
Gender	+				+	
Unit of Analysis						
Study Area	Southern Africa	Ireland	Germany	Germany	Romania	Singapore
Sample size	34800	1853	119	3702	297	168
Measure of growth	Employment	Sales	Employment	Employment	Employment	Sales

Notes: *Entrepreneurial story. ** Confirm only in the manufacturing sector.
Key: + Positive relationship between the element and growth of the business;
— Negative relationship between the element and growth of the business. X No significant association between the element and growth.

4.4.1.1 Motivation

A review of literature on various theories of small business growth in the previous section shows that the motivational objectives of the owner-manager influence the growth of small businesses (See, Davidsson, 1991; Swierczek and Ha, 2003). For instance, Lee and Tsang (2001) found a positive and significant association between the need for achievement of the owner-manager and business growth. This result appeared to confirm Davidsson's (1991) conclusion that the need related factors could provide an explanation to the variations in actual growth rates. Orser et al. (2000) observed that the motivation of the owner-manager to start a business can be attributed to both internal (psychological) and external (socialization) factors and these can influence the performance of small businesses. For Deakins and Whittam (2000) the motivation to start a business was classified under positive and negative factors. Positive motivation factors are associated with the initial aspirations of the owner-manager such as the desire to be independent and desire to work for oneself. Negative motivational factors are linked to reasons to start a business such as a lack of job opportunities or dissatisfaction with the present employment. According to Storey (1994) owner-managers who started business as a result of negative motivational factors were less likely to experience higher growth rate as compared to those who started business due to positive motivational factors.

In Africa, high start-up rates of small businesses have been attributed to the lack of job opportunities and the high incidence of poverty. However, in a more recent study undertaken by Rosa et al. (2006) it revealed that the patterns of business start-ups in Africa appeared to be more complex than the 'necessity' entrepreneurship reported by the GEM Uganda (2004) executive report (Water et al., 2004).

4.4.1.2 Education/training

The level of human capital has been associated with the growth of small businesses and since education and training constitute a substantial aspect of human capital, the level of education of the owner-manager is likely to influence the growth of small businesses. Storey's (1994) review of seventeen studies concluded that educated owner-managers were more likely to establish faster growing businesses. Evidence from the empirical studies summarized in Table 4.3 also shows that out of the eleven studies reviewed, it was only Barkham et al.'s (1996) study that did not find any association between the education background of the owner-managers and the growth of the businesses. Interestingly, Lee and Tsang (2001: 583) found a negative association between education and the growth of small businesses, while a positive association was established with larger businesses. It is important to note that apart from these two studies that provided varied results, the rest of the studies consistently revealed significant positive associations between education and the growth of small businesses. In a more recent study, Rauch et al. (2005: 693) concluded that 'the result(s) of the study provided [the] strongest support for direct effect of both human capital and human resource management and employment growth'. However, their study found no significant association between the growth of the businesses and human capital of the employees. Other studies such as Almus (2002) reported similar results.

In Africa there is a compelling amount of evidence from the various empirical studies that have included human capital variables – the level of education and training of the owner-managers, has a significant influence on growth (Sowa et al, 1992; McPherson, 1996; Liedholm, 2002). The important of human capital and skills to the growth of businesses was also reported by Almus and Nerlinger (1999) when they found a positive and a significant association between technical skills and growth of small businesses. It is also important to note that general education could equip an owner-manager with the basic communication and computational skills to operate in successful manner. According to Barringer et al. (2005) education in specific knowledge-intensive fields such as computing or engineering could provide the owner-manager with additional skills that could probably enhance the performance of the business.

4.4.1.3 Age of the owner-manager

Given the results from Table 4.3 it is obvious that the age of the owner-manager influences the growth of small businesses. Out of the five studies reviewed, four of the studies found a significant association between the growth of the businesses and the age of the owner-manager while only one study did not find any statistically significant association. Storey (1994) identified two hypotheses that could explain the age of the owner-manager and small business growth. It was proposed that the younger owner-manager was likely to have more energy and ambition for growth of the business as compared to the older owner-managers who were more likely to have less energy and be less ambitious for the growth of the business, especially if they were getting closer to retirement. On the other hand, it was argued that older owner-managers were more likely to be more experienced in practical and business skills (Barkham et al., 1996) and this could impact positively on the firms' performance. However, in their conclusion, Barkham et al. (1996) noted that older owner-manager businesses were more likely to experience slower growth rate than the younger managers. In Africa, McPherson's (1996) study of southern African countries provided little evidence for this claim.

Storey (1994) also concluded that younger owner-managers were more likely to experience growth than older owner-managers. The findings from the empirical studies examined also support the above results where four out of five studies reviewed found an inverse relationship between the age of the owner-manager and growth of the businesses. In a more recent study undertaken in Romania by Brown et al. (2005) it was confirmed that younger owner-managers were more likely to experience higher growth in employment than the older owner-managers.

4.4.1.4 Prior business experience

According to Barringer et al. (2005) in their review of various empirical studies of determinants of growth noted that prior business experience of the owner-manager had been one of the most consistence indicators of small business growth because owner-managers with prior business experience would be more likely to avoid major mistakes that were associated with start up businesses. Empirical studies on the subject appeared to support this claim because out of the seven papers reviewed six papers found a positive association between prior business experience and growth of small businesses (McPherson, 1996; Rauch et al., 2005; Brown et al., 2005). However, Barkham et al. (1996) found no significant relationship between the previous experience of the owner-manager and the growth of the business. The study rather found owner-managers who were members of professional associations experienced higher growth rates.

In his review of empirical studies that have examined the relationship between prior business experience and small business growth, Storey (1994) concluded that empirical evidence on the subject was far from conclusive. Notwithstanding that conclusion, Rauch et al. (2005) used prior-self employment in the same industry and education of the owner-manager as human capital variables and found a significant association between human capital and employment growth. Rauch et al. (2005) concluded that the human capital of owner-managers had a significant effect on business growth. A study of small businesses' growth in five African countries (South Africa, Swaziland, Lesotho, Botswana, and Zimbabwe) by McPherson (1996) found that businesses operated by the owner-managers with previous business and training experience as an owner-manager or an employee in a similar business grew faster than the others. Lee and Tsang's (2001: 583) study on the effect entrepreneurial personality, traits and background, and networking on venture growth in Singapore provided the strongest support for this argument when it concluded that 'among all the factors that we have considered an entrepreneurship industrial and managerial experience is the dominating factor affecting growth'. Entrepreneurship industrial experience according to Lee and Tsang (2001: 590) refers to the experience in the industry which the venture is in while the managerial experience referes to total experience in management regardless industry. In this study the term prior business experience refers to experience in similar business as an owner-manager or an employee.

4.4.1.5 Gender

The gender of the owner-manager has been associated with the growth of small businesses by many studies. Five empirical studies reviewed and presented in Table 4.3 appeared to support this argument. Businesses owned by females were less likely to grow compared to male-owned businesses. Various reasons have been given for the slow growth rate associated with the businesses owned by female. A recent study undertaken by Shelton (2006) noted that female owner-managers experienced greater conflict between work and family demands and this relationship has a negative impact on their businesses performance. Another possible explanation, argued by Cliff (1998) for the slow growth rates of female managed-businesses is that female owner-managers were more likely to set a minimum business size threshold beyond which they would prefer not to expand. Other empirical studies have also attributed the slow growth of female owned businesses to the lack of financial and human capital (Kiggundu, 2002; Cliff, 1998). McDade and Spring (2005) attributed the problem to the lack of limited resources, particularly female owned businesses located in Africa. In Africa, various empirical studies have confirmed that female owned businesses experience lower growth rates than their male counterparts (McPherson, 1996; Mead and Liedholm, 1998). Notwithstanding the above findings, Storey (1994) concluded that the gender of the entrepreneurs is not a major influence on small businesses performance.

4.4.1.6 Social marginality

Storey (1994) noted that empirical studies on the relationship between the ethnic background of the owner-manager and the growth of small businesses have not been consistent. Table 4.3 shows that two empirical studies that examined the subject found no relationship between the social background of the owner-manager and growth of businesses. Mccormick et al.'s (1997) study of small business growth in Kenya found no statistical relationship between the social backgrounds of the owner-manager and the business growth. According to Storey (1994) the lack of consistent research results could be due to the difficulty involved in testing such relationship.

4.4.2 The characteristics of the business

As Penrose (1959) pointed out the internal resources of the business determine its ability to meet its environmental challenges and future expansion. Various empirical studies have confirmed that the internal resources of small businesses influence their growth (Calvo, 2006; Biesebroek, 2005). This section reviews the literature on empirical studies that have examined the influence of the business characteristics on small businesses growth. This review is focused on the six factors identified by Storey (1994) as determinants of small businesses growth. The factors to be examined are the age, sector/market, legal form, location, size, and change in ownership. Similar criteria used in the selection of the empirical studies on growth and owner-managers characteristics would also be used here although a conscious effort would be made to repeat most of the studies reviewed in the previous section. Tables 4.4a and 4.4b provide a summary of the results of the empirical studies that have examined the relationship between business characteristics and growth.

4.4.2.1 Age of business

The results from the review of the empirical studies shown in Table 4.4a and 4.4b revealed a negative and significant association between the age of the business and growth. Apart from three studies which did not examine this relationship, the remaining studies undertaken in different countries demonstrated that younger businesses were more likely to grow faster than the older businesses. In a study undertaken in Spain, Calvo (2006) found that over a ten-year period (1990-2000) employment in small, young and innovating businesses had grown more than employment in any other types of businesses. Davidsson et al. (2002) also made a similar observation in Sweden when their study found negative and significant associations between the age of the businesses and growth. Yasuda (2005) also confirmed this relationship for the manufacturing sector in Japan that younger businesses grew faster than the older businesses. In Africa, a number of studies have consistently revealed similar pattern. Liedholm (2002) found that smaller businesses at start-up were able to expand in terms of the number of employees than their larger counterparts. A study undertaken by Biesebroeck (2005) in 9 Sub-Saharan African countries also found an inverse relationship between the growth of small businesses and age. Interestingly, Sleuwaegen and Goedhuys (2002: 126) found in the Côte d'Ivoire that the inverse relationship between growth and age did not exist for businesses that started with employees of 45 or more. Surprisingly, such businesses appeared to regress less fast with age. However, Barkham et al. (1996) found no consistent relationship between age and business growth.

Given the consistent nature of the various empirical findings on the relationship between the age and businesses' growth, different explanations have been given to explain this relationship. For instance, Sleuwagen and Goedhuys (2002) noted that the age-growth relationship was consistent with Jovanovic's (1982) model of learning. Jovanovic (1982) in his model argued that once the businesses begun operation they learnt about their efficiency and adjusted their businesses activities accordingly. In this process market competition forces the less efficient businesses to exit the market while the more efficient businesses survive and expand their business operations. Smallbone and Wyer (2000) on the other hand, argued that newly developed businesses need to increase the scale of their operation if they are to accumulate sufficient resources to be able to overcome unforeseen external circumstances. Storey (1994) agreed with this assertion by pointing out that the high growth rate of young businesses reflects the need for these businesses to grow

Table 4.4a The characteristics of the business

	Davidson et al. (2002)	Yasuda (2006)	Hoogstra and Dijk (2004)	Mead and Liedholm (1998)	McPherson et al. (1996)	Rodriguez et al. (2003)	Roper (1999)	Almus and Nerlinger (1999)
1. Age	–	–		–	–	–	–	–
2. Sector	+			+	+	x		+
3. Legal form	+						x	+
4. Location	+		+	+	+			
5. Size	–	–		–	–	–	+	–
6. Ownership	+/–						x	
Sample size	11,196	25,185	35000	34800		1092	1853	32045
Country	Sweden	Japan	Netherlands	5 Southern African countries & Dominican Republic	5 Southern African countries	Spain	Ireland	Germany
Measure of Growth	Employment	Employment	Employment	Employment	Employment	Sales /employment	Sales/ profitability	Employment

Key: + Positive, - negative, and X no significant relationship between the element and growth of the business.

Table 4.4b The characteristics of the business

	Barkham et al. (1996)	Liedholm (2002)	Sleuwaegen & Goedhuys (2002)	Biesebroeck (2005)	Almus (2002)	Teal (1998)	Calvo (2006)
1. Age	X	–	–*	+			–
2. Sector	X	+		+	X	X	+
3. Legal form			x		+		
4. Location	+	+	+	–			
5. Size	–	–	–	+	–	X	–
6. Ownership							
Sample size	172		185	1800	3702		967
Country	UK	5 Southern African countries	Côte d'Ivoire	Sub-Saharan Africa	Germany	Ghana	Spain
Measure of Growth	Sales/ employment	Employment	*Sales/ Employment	Employment	Employment	Employment	Employm ent

Key: + Positive, - negative, and X no significant relationship between the element and growth of the business.
* This does not hold for businesses that started at large scale.

quickly to achieve the minimum efficiency scale of production.

4.4.2.2 Size of the business

Evidence from the empirical studies reviewed in Table 4.4 also shows a consistent negative and significant relationship between the size of the business and growth. Out of 12 studies reviewed, 10 showed an inverse relationship between the size of the businesses and growth while 2 showed positive relationships. Interestingly, the two studies that revealed positive relationships were undertaken in Africa. According to Davidsson et al. (2002: 334) 'business size is the most widely studied factor for its contribution to growth, because of the widespread interest and the debate on the issue of job creation and size of the firm'. Since the pioneering work of Evans (1987) that rejected the Gilbrat's Law of Proportionate Effect which states that firm growth is independent of its size, subsequent empirical studies have confirmed that the size of the business is inversely related to its growth as revealed in Table 4.4.

A study by Almus (2002) that investigated the determinants of fast-growth businesses in both Eastern and Western Germany found that smaller businesses had higher growth potential than the larger businesses. In an attempt to interpret the finding of the study, Almus (2002) pointed out that many small businesses often started operations at suboptimal size and therefore needed to grow quicker than the industrial growth rate in order to achieve the minimum efficiency scale level of production. Barkham et al. (1996) in their study also revealed a negative relationship between the size of the businesses and growth rate and listed a number of possible reasons for the relationship. According to Barkham et al (1996: 55) small businesses are more flexible than the larger businesses and this enable the former to adjust quickly to market changes or pursue new line of business than the larger businesses. McPherson (1996) also found an inverse relationship between business size and growth in almost all the countries with the exception of Zimbabwe where no significant relationship was found. Mead and Liedholm (1998) made a similar observation in a study in five Southern African countries and the Dominican Republic.

Notwithstanding the numerous studies that have found negative relationships between the size of small businesses and growth, there were two studies that revealed otherwise. Biesebroeck's (2005) study that examined the relationship between the productivity and growth in nine sub-Saharan African countries found that medium and large-sized businesses were expanding their workforce more rapidly than the smaller businesses. Roper (1999) also found a positive association between the size of the businesses and sales growth although a negative relationship was found with profitability. Teal (1998) in a study in Ghana also reported no significant association between small business growth and size.

The possible reason for the different results from these studies could be attributed to the size of the businesses which were the focus of the studies. In the case of Biesebroeck (2005) and Teal (1998), the studies examined large scale businesses as opposed to the small scale businesses which had been the focus of many studies on determinants of growth in most African countries (McPherson, 1996; Mead and Liedholm, 1998; Mccormick et al. 1997). For instance, Biesebroeck's (2005) study had a mean employment size of 130 while Teal's (1998) survey sample was based on Ghana Statistical Service data which used sales tax paid as collected by Customs Excise and Preventive Service (CEPS). It is important to note that the majority of businesses registered with CEPS are large scale. The possible explanation from the findings were that large scale businesses in Africa experience higher productivity rates and also had more access to resources than small businesses hence higher growth rates for large scale businesses.

According to Frazer (2005) larger businesses in Ghana were more productive and less likely to exit from the business. This finding appeared to support Biesebroeck's (2005: 577) study that concluded that businesses employing more than 100 workers were more productive, more likely to survive and also grow more rapidly than the smaller businesses. The possible explanation to this result could be found in the work of Sleuwaegen and Goedhuys (2002) who noted that the determinants of growth as examined in the previous section do not explain the emergence of the dual market structure that appeared to exist in most developing countries. According to Sleuwaegen and Goedhuys (2002: 119) the Jovanovic (1982) learning model appeared not to be applicable to many least developed countries due to the high sunk entry costs and the low number of market participants. The result is that competition failed to work as a selection mechanism. Hence, small businesses experiencing slower growth rates in some African countries which contradict the findings of most studies in the developed world.

4.4.2.3 Sector

In his review of empirical studies that have examined the relationship between the small business growth and sector, Storey (1994: 140) concluded that 'in the bulk of the studies there are significant differences between sectors in terms of the typical growth rates of the firms'. In Table 4.4 the summary of the empirical studies also shows that out of the 10 studies that examined the relationship between growth of the businesses and their sector, six of the studies found significant associations between the growth of the business and the sector while four found no statistical relationship.

Davidsson et al. (2002: 344) found a positive association between the business growth and sector and noted that businesses in the computer services, technical consultants, and education and healthcare in Sweden grew faster than the businesses in the manufacturing and metalwork sectors. The study noted that industry effect on growth rates were very important and studies that reported lower levels of industrial impact could be due to the use of establishment or enterprise definitions which could cause industrial sector differences to blur (Davidsson et al. 2002: 344). Calvo (2006) also noted that in Spain businesses found in sectors with high technological development had higher growth rates than the businesses in other sectors. Shaffer (2006: 149) also reported in a study undertaken in the US that growth in sectoral employment revealed significant and positive associations for the manufacturing and the retail sectors. Similar studies undertaken in some African countries have also revealed significant statistical relationships between small businesses growth and sector (Wolf, 2004; Liedholm, 2002). Liedholm (2002) observed that the sector in which a business operates could help to explain the growth of small businesses. Liedholm (2002) found that businesses in the manufacturing and the service sectors were more likely to experience higher rates of growth than those in the trading sector. Wolf's (2004) study in Ghana also found significant variations in terms of output per sector.

Notwithstanding the findings from the above empirical studies, there are four studies in Table 4.4 that found no significant association between the growth of small businesses and the sector. Barkham et al. (1996: 140) concluded that 'firms were as likely to grow rapidly in any one industry as in any other, irrespective of the aggregate growth of the industry as a whole'. The possible explanation according to Barkham et al. (1996) was that small businesses operate in the niche markets which do not represent the wide product group. In Ghana, Teal's (1998) study revealed no significant statistical association between the growth of the businesses and the sector, although Wolf (2004) reported otherwise.

4.4.2.4 Location of the business

The relationship between the location of the businesses and growth appeared to be significant (Storey, 1994; Liedholm, 2002; Hoogstra and Dijk, 2004). Hoogstra and Dijk (2004) in a study undertaken in the Netherlands on the influence of location on small businesses growth concluded that 'location matters', however, the effect differed by the type of the economic activity. Table 4.4 also shows that location indeed influences the growth of small businesses. All the 7 studies which examined the location and growth reported the significant association. Davidsson et al. (2002) found that small businesses located in many smaller communities experienced negative growth rates when compared with small businesses located in Stockholm. A number of studies undertaken in Africa also reported that businesses located in the commercial districts were more likely to grow faster than those located in rural towns and villages (McPherson, 1996; Mead and Liedholm, 1998; Sleuwaegen and Goedhuys, 2002).

Sleuwaegen and Goedhuys (2002) observed that businesses located in Abidjan, the commercial capital of Cote d'Ivoire, appeared to grow faster than small businesses found in other cities. The availability of industrial sites, infrastructure, and access to raw materials and skilled labour were some of the locational determinants mentioned by the owner-managers (Sleuwaegen and Goedhuys, 2002). While the above empirical studies demonstrated that small businesses located in small towns performed poorly, in Britain the opposite is the case. Keeble (2003: 91-92) in a study of British SMEs in the North-South and Urban-Rural variation and growth reported that 'the poorest performing firms in terms of employment and sales are those of the industrial heartlands, while the fastest-growing over the 1999-2002 period were those of the periphery'.

4.4.2.5 Legal form

According to Storey (1994) empirical studies have revealed that the legal form of the business influences its growth. Out of the five empirical studies examined in Table 4.4, three of the studies reported significant associations between the business growth and legal form. Davidsson et al. (2002) reported that businesses that had registered as limited liability experienced higher growth rates than those registered as sole proprietorships. Almus (2002) also noted that firms with legal form in the Eastern Germany experienced higher growth potential although this relationship was not significant for businesses located in Western Germany. In Côte d'Iviore, Sleuwaegen and Goedhuys (2002) found no significant association between the legal form of the businesses and their growth.

4.4.2.6 Change of ownership

The empirical studies summarized in Table 4.4 show that most of the studies did not address the question of the influence of the change in small business ownership and growth. However, Davidsson et al. (2002) noted that the nature of the change would determine the growth pattern of the business. For instance, the change from a subsidiary company to an independent company could lead to negative growth in employment while a change from an independent ownership to an equity ownership could lead to increase in growth potential for the businesses (Almus and Nerlinger, 1999).

4.4.3 Business strategy

The third component of small businesses' growth according to Storey's (1994) growth framework is the business strategy which was defined as the actions undertaken by the owner-manager once in business. Business strategy promotes organisational growth (Littunen and Tohmo, 2003) and there are a number of empirical studies that confirmed this relationship (Storey, 1994; Barkham et at., 1996; Roper, 1999; Almus and Nerlinger, 1999; Gundry and Welsch, 2001). According to Davidsson and Wiklund (1999) changes in environmental conditions bring opportunities and threats to businesses. The ability of the owner-manager or management team to use its internal resources to manage these environmental challenges to its advantage is what differentiates fast growth businesses from slow growth businesses (Penrose, 1959).

Small business strategy has been studied from different perspectives based on the researcher's interest and the focus of the study. Van Gelderen et al.'s (2000) study focused on the individual and psychological strategies and the relationships with small business success, whilst Gundry and Welsch (2001) examined the strategic choices of the owner-managers and the relationships of those choices to the growth orientation of the businesses.

As shown in Table 4.2 Storey (1994) identified 14 strategic elements of small businesses that were likely to influence their growth. It is important to note that some of the elements identified would impact significantly on small businesses growth while others would have no impact on growth. According to Reid and Smith (2000: 165) some of the features of small business strategy have little or even a negative impact on growth. Barkham et al. (1996) also observed that irrespective of the characteristics of the owner-manager some elements of the business strategy will impact significantly on small business growth while others will have little or no impact. Storey's (1994) review of empirical studies on business strategies and growth concluded that out of the 14 strategic elements identified, only four elements or group of elements (that is, share of equity with external individuals, market positioning, introduction of new product, and willingness of the owner-managers to devolved decisions to non-owner-managers) registered significant association with growth. Barkham et al. (1996: 139) after examining a wide range of strategic factors concluded that a limited number (market research, selling directly to customers, seeking external capital, product innovation, concentration on a few main products, and investment in new machinery) revealed a significant association with businesses growth in turnover over the four-year period.

Considering the diverse nature of the strategic factors identified (Brixy and Kohaut, 1999), the focus of this study and the findings of many empirical studies (Barkham, et al., 1996; Roper, 1999; Vaessen and Keeble, 1995), this section will focus on the impact of the three main strategic factors on small businesses growth. The factors are innovation, the use of external advice, and market and exporting. Although Roper's (1999) study on small business growth and profitability concluded that small business performance depends to a large extent on the strategic choice of the owner-manager, empirical evidence of the direct effect of the various strategic elements has been varied (Freel and Robson, 2004).

4.4.3.1 Innovation

The impact of innovation on the growth of small businesses has received a substantial amount of attention, especially since the pioneering work of Audretsch (1995) which invigorated researchers' interest (Yang and Huang, 2005; Wong et al. 2004; Hsueh and Tu, 2004; Freel and Robson, 2004). Audretsch's (1995: 441) study found that small businesses that operated in innovative environments and were able to adjust and offer a viable product appeared to experience higher rates of growth and a greater likelihood of survival. A study undertaken by Freel and Robson (2004) found a positive relationship between novel product innovation and employment growth. There was also evidence from studies undertaken in some South-East Asian countries that support the hypothesis that businesses that engaged in innovation activities were more likely to experience higher growth rates than non-innovation businesses (Hsueh and Tu, 2004; Yang and Huang, 2005). Studies undertaken in Germany also revealed a positive association between businesses involved in innovation activities and employment growth (Almus and Nerlinger, 1999; Brixy and Kohaut, 1999). For instance, Brixy and Kohaut (1999) found in the Eastern Germany that businesses that used current technology reported growth in employment when compared with the industry average growth. In Africa there are comparatively few studies that have examined the relationship between innovation and firm growth. However, there is strong evidence from networks and innovation research which suggests a strong link between innovation and firm performance (Murphy, 2002; Chipika and Wilson, 2006; Sverrisson, 1997). The conclusion drawn by Cavlo (2006: 120) sum up the significant role that innovation plays in small businesses employment growth: '[i]nnovation is the most important factor determining firm survival in Spanish manufacturing industry, and that being small, young, and innovating and situated in technically developed sector is fundamental to employment growth'.

4.4.3.2 External advice

For the use of external advice and small businesses growth a comprehensive review of the literature in Chapter three revealed mixed results (Lambretch and Pirnay, 2005; Hjalmarsson and Johansson, 2003; Westhead and Storey, 1996) although there were some studies that demonstrated a significant relationship between the two variables (Berry et al., 2006; Ramsden and Bennett, 2005; Wren and Storey, 2002; Robson and Bennett, 2000). The previous chapter provides extensive analysis of empirical studies on the relationship between the use of external advice and small businesses growth.

4.4.3.3 Market and Exporting

With regard to the relationship between the marketing as a business strategy and growth, there is evidence from empirical studies to show that small businesses performance is strongly influenced by the marketing strategy that they adopt (Roper, 1999; Barkham et al., 1996) although the impact of various marketing techniques employed may vary. Research studies have confirmed that small businesses that adopt marketing positioning or develop a niche market experience higher growth rates than other businesses without those strategies (Storey, 1994; Barkham et al., 1996). However, the relationship between small businesses involved in exporting activity and growth have produced mixed results. While Brixy and Kohaut (1999) found that exporting small businesses was not significantly associated with the employment growth, and this is supported by Wolf's (2004) study in Ghana. Kitson and Wilkinson

(2003) observed that medium growth businesses appeared to depend more on the international markets than the local markets when compared with the stable/declining and the fast growth businesses. Furthermore, a study by Wagner (1995) that sampled 7000 manufacturing businesses in Germany found that growth and export performance were positively related.

4.5 Conclusion

The role of growing businesses in job creation has been recognised by both academics and policy makers. Empirical studies have found that fast growth businesses create a significant proportion of job expansion in many economies (Storey, 1994; Liedholm, 1994). However, theories on the determinants of small businesses' growth have been described as fragmented and inconsistent (Weinzimmer et al. 1998; Davidsson and Wiklund, 1999) although Barringer et al. (2005) disagree with this observation. The methods of measuring the growth of small businesses have also been found to be inconsistent and the two most common methods were sales and employment.

Among the theories that explain businesses' growth have included the work of Gibrat's (1931) 'law of proportionate effect', which have found to be inconsistent with many empirical findings. Other theories included Penrose (1959) resource based theory which explains the importance of the internal resources of the business to growth and Jovanovic (1982) learning theory. Recent studies to explain the growth of small businesses included the works of Davidsson (1991), Storey (1994), Orser et al. (2000), and Garnsey (1998). Davidsson (1991) examined the growth of small businesses from the perspective of growth motivations of the owner-manager (ability, need, and opportunity). Storey (1994) on the hand, examined small businesses growth from three major growth determinants. They are the characteristics of the owner-manager, the business and the business strategy. According to Storey (1994) for businesses to achieve a higher growth, all the elements of the determinants of growth must be combined in a proportionate manner.

A review of empirical studies since Storey (1994) revealed that among the elements of the characteristics of the owner-manager, the age, gender, education/training, and previous experience showed significant association with growth. With regard to the characteristics of the business, age, size, location and the sector were found to be significantly associated with growth. For business strategy, innovation was found to be significantly associated with growth while findings on the relationship between growth and businesses involved in exporting activity and the use of external advice were inconsistent. Table 4.5 summarises the nature of statistical association between growth and growth variables to be used in the study.

Table 4.5. Summary of the nature of statistical association between growth and growth variables to be used in the study.

Variable	Positive	Negative	No Relationship
Characteristics of the owner-manager:			
Education	8	1	0
Gender	4	0	0
Age	0	4	1
Previous experience as owner-manger or employee in similar sector	4	0	2
Business characteristics:			
Age	1	10	1
Size	2	11	1
Sector	7	0	4
Location	7	1	0
Business Strategy:			
Innovation	5	0	0
Exporting	1	0	2
Use of business advice	4	0	3

Adapted from Tables 4.3 and 4.4

Chapter 5

Research Methodology

5.1 Introduction

The previous three chapters reviewed the literature on barriers to small businesses growth in Africa, the use and the level of influence of external business advice on small businesses growth and the various theories of growth. Collectively, the aforementioned chapters provided the theoretical framework for this study. This chapter presents the research methodology and sets out the objectives of the study and the rational for the choice of the study and the study area. The main research questions that the study investigates are stated and the research strategy is discussed.

5.2 Objectives of the study

The main objectives of this study are to identify and understand the problems that hinder small businesses' growth and to examine the role of external business advice in promoting small businesses growth in Ghana. The specific objectives of the study are:

1. To establish what are the problems that hinder small businesses' growth in Ghana.
2. To identify the sources, levels of use and the influence of the use of external business advice on small businesses' growth.
3. To identify the determinants of small business growth in Ghana.
4. To ascertain the influence of the background characteristics of the owner-manager and the internal resources of the businesses on the barriers to growth and the use of external advice.

5.3 The rational for the choice of the study

Given the important role that small businesses play in an economic development and the huge amounts of public resources that both governments and the multinational agencies invest in the provision of external business support to the small businesses sector (Beck et al. 2005; Wren and Storey, 2002), it is imperative that academics take active interest in researching small businesses policy initiatives (Curran and Storey, 2002). Evidence from empirical studies suggests that problems that faced small businesses over a decade ago continue to hinder their growth today particularly in developing countries (Harper and Soon, 1979; Sowa et al., 1992; Mead and Liedholm, 1998). As argued by Curran and Storey (2002: 163) research appeared to have made little impact on small businesses' policy and support. Storey (2000: 176) justified the need for studies on external business support to small businesses when he pointed out that:

> *"Given the huge variety of schemes, the diversity of countries in which the schemes are found and often inflated claims on the part of those administering the scheme for their effectiveness, it is disappointing that the academic community has been rather slow in seeking to address this area".*

In an attempt to contribute to the growing knowledge of the field and to influence policy initiatives particularly in Africa where probably little empirical studies have been undertaken in this area motivated the researcher to choose this topic for this dissertation.

5.3.1 The research questions

Based on the objectives of the study the following key questions are investigated:

1. What are the problems that owner-managers perceived as hindering the attainment of their business objectives?
2. What are the sources and the levels of use of external business advice by small businesses?
3. What are the levels of satisfaction obtained by the use of external business advice?
4. What are the levels of use and satisfaction derived from the use of NBSSI (public support agency) and Empretec Ghana Foundation (private support agency) support services?
5. What are the determinants of growth?
6. What are the relationships between businesses growth and the use of business advice in Ghana?

5.3.2 Time frame

The time frame for this study covers a period 2001 to 2005 which implies that the business should have been operating for the past four years at the time of undertaken the fieldwork. According to Davidsson and Klofsten (2003: 2) a period of three or more years was enough time to give a business a stable foundation in which it could continue to develop.

5.3.3 Theoretical framework

In order to provide answers to the above questions, the theoretical framework of the study is categorised under the three main headings: Barriers to growth, the use and influence of external business advice, and the determinants of growth.

5.3.3.1 Barriers to growth

Based on the extensive review of the literature a list of 37 factors of barriers to growth were identified and classified under 7 main headings (finance, market, managerial/technical, inputs, economic /regulatory, infrastructure and socio-cultural). This classification was based on a model developed by Terpstra and Olson (1993) that had been adapted by subsequent studies such as Huang and Brown (1999). The barriers identified were matched against the characteristics of the owner-managers and the internal resources of the businesses to determine if a statistical association could be found. The assessment of the influence of the barriers to growth on attainment of business objectives was measured on a 4-point Likert scale (not important, moderately important, important and crucial limitations).

5.3.3.2 The external business advice

For the use and the influence of external business advice on small businesses growth, data was gathered from the seven categories of sources of advice (market supply chain, social networks, professional specialists, professional generalists, business associations, government sponsored-agencies, and bilateral and multilateral agencies). These categories were based on the classification of Bennett and Robson (1999) by adding another category bilateral and multilateral agency. The seven categories of sources of external advice were examined against the characteristics of the owner-managers and the internal resources of the businesses to determine the statistical relationships among the variables (See, Table 5.1).

In order to evaluate the effectiveness of assistance programmes McMullan et al. (2001: 39) identified three measures of evaluation that could be used.

1. Subjective assessments of client satisfaction;
2. Clients' attribution of the impact of assistance on their subsequence performance; and
3. Objective measures such as growth in employment and sales.

For this study all three measures of evaluation were were were used (McMullan et al., 2001: 39). The first and the second measures of growth appeared to be subjective and based on the opinion of the owner-manager. Although subjective measure of growth could sometimes lead to erroneous conclusion, Aidis (2005: 306) noted that subjective opinion provides insights into the effectiveness of a programme while McMullan et al. (2001) also pointed out that when used in conjunction with objectives measure could provide significance evidence about the effectiveness of a programme. In spite of the limitations associated with the subjective measure of support programmes, McMullan et al. (2001) concluded that subjective evaluation could be used to measure the level of clients' satisfaction while objectives measure could be used to determine the level of impact of a programme on business. Employing McMullan et al. (2001) three measures of valuation therefore enhances the validity of the research findings.

This study was designed along the lines of three questions that Storey (1994: 284) advised researchers to answer when assessing the effectiveness of any counselling or advisory services:

1. Is the service used? The use of external business advice was determined by asking respondents to indicate their use from the seven categories of external sources of advice.
2. Do users find it helpful? The level of satisfaction was measured by asking respondents to indicate satisfaction with business advice received on a 4-point Likert scale (very dissatisfied, dissatisfied, satisfied, and very satisfied).
3. Does the use of the service seem to improve the performance of the business? The changes in the performance of the business were measured in terms of growth in employment size, business involvement in innovating and exporting activities.

5.3.3.3 The determinants of growth

The study also employed Storey's (1994) growth model to examine the relationship between the problems identified and the use of external advisory services against the growth of the businesses. Storey (1994: 122) identified the following as the basic determinants of growth of small businesses: (1) the characteristics of the owner-manager, (2) the internal competencies of the business, and (3) the business strategy.

Figure 5.1 depicts the interrelationships among the characteristics of the business and the owner-manager, barriers to business growth, the use of external business advice and growth. While the characteristics of the owner-manager and the internal resources of the businesses can influence the growth of small businesses directly, the ability of the owner-manager to manage the barriers to growth and use business advice strategically can also facilitate the growth of small businesses.

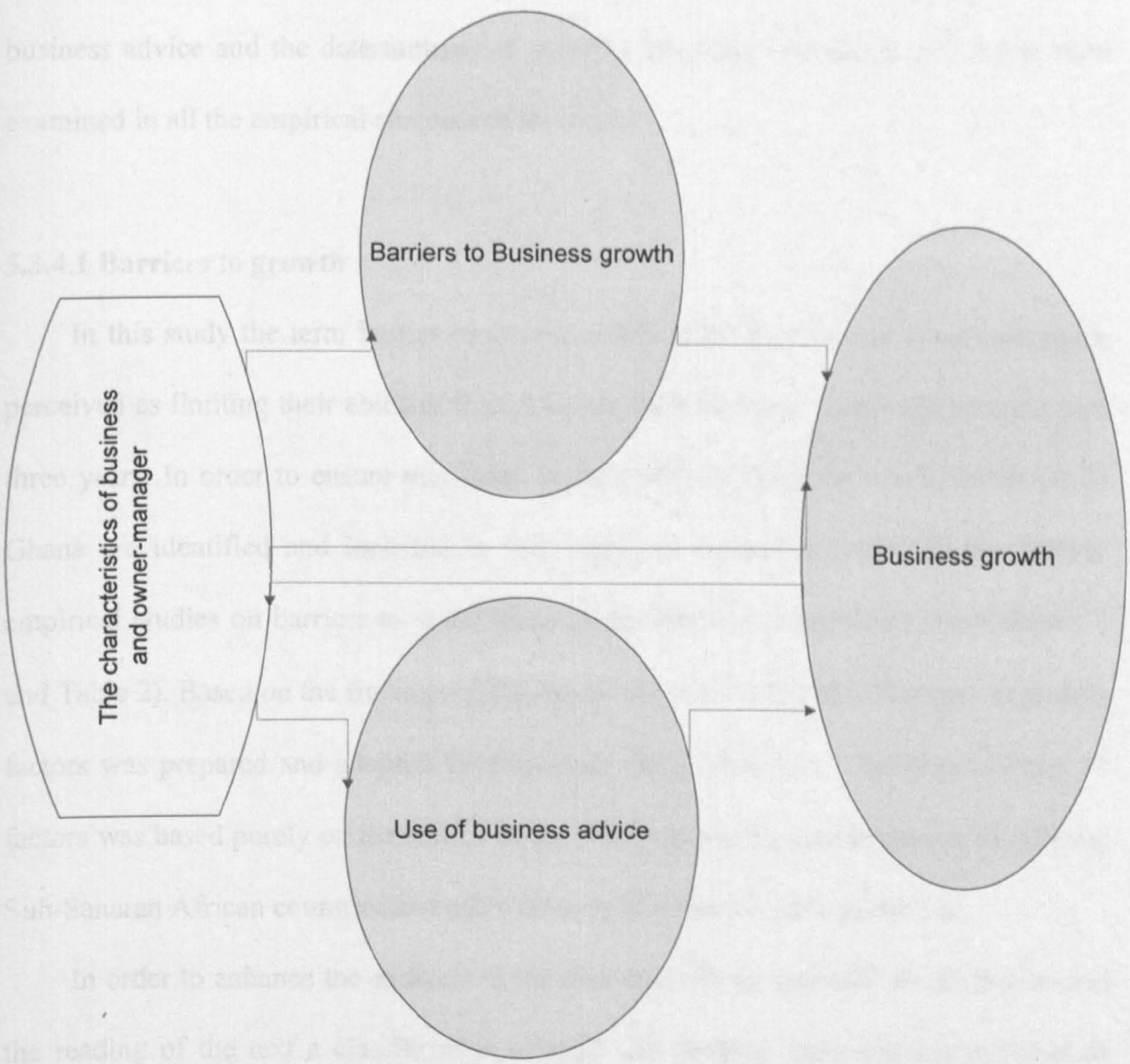


Figure 5.1: The relationships among the characteristics of the business and the owner-manager, barriers to growth, use of business advice and business growth.

Tables 5.1c and 5.1d also provide a summary and definition of the various variables examined under the four categories indicated in the above diagram.

5.3.4 Justification for the choice and measurement of variables

This section examines the rationale for the choice of variables and the measurement methods to be used in the three core areas of the study (barriers to growth, business advice and the determinants of growth) including innovation which has been examined in all the empirical chapters of the study.

5.3.4.1 Barriers to growth

In this study the term barrier to growth refers to the factors that owner-managers perceived as limiting their abilities from meeting their business objectives over the past three years. In order to ensure that most of the problems faced by small businesses in Ghana are identified and included in this study, an extensive review of the various empirical studies on barriers to small business growth was undertaken (See Chapter 2 and Table 2). Based on the findings of the literature review a list of 37 barriers to growth factors was prepared and adopted for this study (See Table 5.1). The choice of the 37 factors was based purely on the review of the empirical studies undertaken in the Ghana, Sub-Saharan African countries and other developed countries such as the UK.

In order to enhance the analysis of the data that will be gathered on 37 factors and the reading of the text a classification scheme was devised. Here various methods of classifying management and small business problems by authors such as Walsh, 1988; Cowan, 1990; Terpstra and Olson, 1993; Birley and Niktari, 1995; and Huang and Brown, 1999) were reviewed (See Section 2.3) and summarized below:

Table 5.1 Classification of organization problems

Name of Author/year	Classification structure
Walsh (1988)	Human relations, accounting/finance, marketing, internal management, and external management.
Cowan (1990)	External environment, strategy, production, operations, MIS-data processing, accounting, marketing, communications, personnel-human resource management.
Terpstra and Olson (1993)	Obtaining external finance, internal financial management, sales/marketing, product development, production/operation management, organisational structure/design, general management, human resource management, economic environment, and regulatory environment.
Birley and Niktari (1995)	Capital structure, management team, economy, financial management.
This study	Finance, market, managerial/technical skills, input, economic/regulatory, infrastructure, and socio-culture.

The classification scheme developed for this study takes into cognisance the diverse problems faced by small businesses in developing countries such as Ghana and also supported by the work of Terpstra and Olson (1993). This scheme includes two components (socio-culture and infrastructure) that were not considered in the studies reviewed above but were relevant to the Ghanaian situation (See Kiggundu, 2002; Buame, 1996; Takyi-Asiedu, 1993).

The barriers to small businesses growth were measured by asking respondents to indicate from the list of 37 factors that they perceived as hindering or limiting their ability to meet their business objectives over the last three years. In the questionnaire (See Appendix 1), respondents were also made to indicate from a 4-point scale (Not important limitation, moderately important limitation, important limitation, and crucial limitation) the level of impact of the factor indicated on their business performance. A 4-point scale was adopted in order to prevent respondents from sitting in the middle.

5.3.4.2 The business advice

In this study the terms external business advice is used to refer to the various contacts that owner-managers established with individuals or institutions outside the business as a means seeking ideas, opportunities, business information, support and help in problem solving as indicated in studies undertaken by Araujo and Easton, 1996, Birley, 1985, Hoang and Antoncic,

The lack of comparable study of the use and the impact of external business advice in the study area and sub-Saharan Africa in general resulted in this section relying on studies undertaken in the developed countries such as the UK and other desk top studies undertaken in Ghana and Africa in general (See Chapter 3 for literature review). The review of various empirical studies on the sources and the use of external advice revealed that among the most consistent sources used could be categorised under the private sector sources, government and businesses associations (Bennett and Robson, 1999; Ramsden and Bennett, 2005; Berry et al, 2006). In recent years various empirical studies have also demonstrated the use of social networks as an important source of business advice particularly, in the developing countries (Buame, 1996; Dijk, 1997). The work of Mkandawire (1999) has also demonstrated the important role that multi-lateral and bilateral agencies play in the provision of external advice in the developing countries such as Ghana.

Using Bennett and Robson's (1999) classification Table 5, below provides a summary of the variables that would be used for this study based on the extensive review of the literature in Chapter 3 (See Tables 3.1a and 3.1b). This classification was adopted from the Bennett and Robson (1999) and has been modified to reflect the context of the study area by adding a seventh category of bilateral/multilateral agencies.

Market and supply chain	Social network	Professional specialists	Professional generalists	Business Associations	Government -sponsored schemes	Bilateral/ Multilateral agencies
Customers Suppliers	Friends/ relatives Business associates	Banks Accountants Solicitors	Consultants Institutes of Higher Education (Universities/ polytechnics)	Trade/ professional associations Chamber of Commerce	NBSSI (BAC) GRATIS/ ITTU	APDF (IFC) Empretec (UNCTAD) TechnoServe (USAID)

Table 5. 1b Classification of the variables used in the study

The choice of the variables above with the exception of the government sponsored and bilateral/multilateral agencies was based purely on the literature review in chapter 3 and the subsequent summary of the sources of external variables in Tables 3.1a and 3.1b from different empirical studies. For the government sponsored schemes NBSSI was chosen because it is the government flagship set up to provide business advisory services to small businesses in the country while GRATIS/ITTU was set up by the government to develop and transfer appropriate technology to small businesses (See Section 3.7.3 for details). The choice of the bilateral and multilateral agencies was based on the number of years that the agency has operated in the country and many years in operation demonstrate the sustainability of the programme. In all cases these agencies have been supporting small businesses for over 16 years in the country (See Table 3.5).

In evaluating the level of use and the impact of external business advice, this study adopted McMullan et al. (2001: 39) three measures of evaluation of subjective measure, performance attribution, and objective performance:

1. Subjective measure: Here two subjective questions were asked. First respondents were made to indicate whether a particular advice source has been used in the last three years. Second respondents were made to indicate the level of satisfaction obtained from the use of the service on a 4-point scale of "very dissatisfied, dissatisfied, satisfied, and very satisfied".

2. Performance attribution refers to the client attribution of the impact of assistance on their subsequent performance. In this study one attribution measure was used. Respondents were asked to assess the impact of the advice used on meeting their business objectives over the last three years on a 4-point scale of "no positive impact, moderate impact, important impact, and crucial impact".

3. Objective performance measure: Under the objective assessment respondents were made to provide information on employment, production and sales levels from the period 2001-2004. Also employment data for 2005 was gathered. It is important to note that due to inadequate data gathered on sales and

production levels, this study measured the growth of the businesses based on the number of employees.

It is important to note that the use of subjective, attribution or objective measure of programme evaluation has its own merits and demerits. Storey (2000) observed that using subjective or attribution performance measure results in respondents having difficulties in providing accurate assessment of impact of support on firm performance. For objectives measure of growth it has been argued that the use of such a measure without a control group does not provide a convincing case for economic impact (Storey, 2000). However, McMullan et al. (2001) argued that the use of subjective measure notwithstanding its limitations is relatively simple, inexpensive and straightforward to implement and also reveals the level of satisfaction of client about a particular programme. Furthermore, the use of attribution and objective measures could provide reasonable evidence about the relationship between the use of business advice and business performance as the two performance measures are positively correlated (McMullan et al., 2001). The three performance measures used would also attempt to answer Storey (1994) three questions that he asked researchers to answer when assessing the effectiveness of any counselling or advisory services:

1. Is the service used?
2. Do users find it helpful?
3. Does the use of the service seem to improve the performance of the business?

5.3.4.3 The determinants of growth

A review of empirical studies on the determinants of small business growth in Chapter 4 revealed different strand of growth models. The models include the Storey (1994) model of growth, Davidson (1991) motivational model of growth and the growth process or stages of growth model used by Kazanjian (1988). In this study Storey (1994) growth model was adopted after extensive literature review of empirical studies of the determinants of small business growth (See section 4.4 for literature review). According to Storey (1994) the growth is small business is determined by the proportionate mix of three main components: the characteristics of the owner-manager at pre-start, the characteristics of the business at-start and the business strategy at post-start. Storey (1994) growth model was adopted for this study because it is one of the most consistent used models to measure the growth of small businesses (See section 4.4). Also Storey (1994) growth model attempted to bring the key growth theories such as Jovanovic's (1982) learning theory, Penrose (1959) resource-based view of growth, and Davidson (1991) motivational model of growth under one framework.

Based on the literature review in section 4.4 and the summary of empirical findings of factors which are significantly associated with the growth of small business in Tables 4.3 and 4.4, the following owner-manager and business characteristics, and business strategic variables have been chosen for measuring the determinants of growth in this study:

1. Owner-manager characteristics: gender, age, educational qualification, and previous experience as an owner of a business or an employee in similar a sector.

2. The business characteristics variables are: the age, size, location and the sector.

3. The business strategy variables are: the business involvement in exporting, innovation, and the use of external business advice.

Table 4.5 provides a summary of influences of the individual variables on growth based on the results from Tables 4.3 to 4.4. Table 5.1b also provides a classification and the definitions of the variables to be examined in this study. Information about the characteristics of the owner-manager and business and the business strategy were asked in Section 'A' of the questionnaire.

In section 4.2 various methods of measuring small business growth were examined. A review of the literature revealed a lack of consensus on measuring approach (Barkham et al. 1996; Rodriquez et al. 2003) and a lack of consistency in approach (Weinzimmer et al. 1998). Robson and Bennett (2000) identified about four different measures of small business growth: number of people employed, sales turnover, profitability, and total assets (See section 4.2). In this study, sales turnover, the number of people employed, and production level were employed. Tables 4.3 to 4.4 demonstrate that the number of employees and the sales turnover were the most used methods in measuring small business growth. There was also reasonable representation with regard to the production level method particularly for studies undertaken in the study area in the literature review (See Frazer, 2005; Teal 1998). By adopting multiple measure of growth, it was believed that richer data would be gathered and errors would be minimised (Davidson and Wiklund, 1999; Van Gelderen et al, 2000). However, inadequate useable data gathered on sales and production levels during the survey had meant that the study used the changes in the number of employees during the period under study to measure growth. Respondents were not willing to provide information on sales and production for the fear that those information would be given to government officials for tax purposes.

5.3.4.4 Innovation

In this study the term innovation is used to refer to the introduction of new ideas to the firm which could be incremental or novel. A novel innovation is defined as one that is new to the business and also new to the industry while incremental innovation refers to the introduction of new ideas to the businesses, but not new to the industry. These terms were included in the questionnaire so that respondents would be able to provide appropriate responses to the question that were asked.

For this study innovation was designed based on the European Union Harmonised Innovation Survey (CIS) (See, Kleinknecht and Mohnen, 2002) in which respondents were asked to indicate whether novel or incremental innovation had or had not taken place over the past three years. Data was gathered about 7 categories of innovation - products or services, production processes (including storage), work practices/workforce organization, supply and supplier relations, markets and marketing, administration and office systems, and product or services distribution.

Alternatively, the use of patent register should have provided a better measure of innovation activities of the businesses in the survey. However, in a developing country like Ghana, the market for innovation is still in its infancy stage and a reliable patent register is not yet available. Thus the focus is beyond the R&D laboratory (Oyelaran-Oyeyinka et al, 1996).

Table 5.1c Summary of variables examined in the study

Characteristics	Barriers to business growth	Sources and use of advice
Business:	**Finance:**	**Market supply chain:**
Size	Lack access to debt finance	Customers
Age	Inadequate access to equity finance	Suppliers
Growth	Interest rates too high	**Social networks**
Family ownership	Do not have collateral to secure bank loan	Family
Innovation	Difficult to meet loan criteria	Friends
R and D	Inadequate family finance	Business associates
Exporting	**Market:** Inadequate demand	**Professional specialists:**
Training	Too many competing firms	Bank
Location	Competition from imported goods	Accountants
Owner-manager:	High advertising costs	Solicitors
Gender	Inadequate market research	**Professional generalists:**
Age	**Managerial/Technical Skills:**	Consultants
Educational qualification	Shortage of skilled labour	Institute of Higher Education
Previous experience	High wages for skilled labour	**Business associations:**
	Access to new technology	Trade association
	Inadequate financial skills	Professional association
	Inadequate management skills	Chambers of commerce
	Inadequate marketing skills	Informal sector association
	Inadequate technical skills	**Government- sponsored schemes:**
	Input: High cost of local raw materials	NBSSI
	High cost of imported raw materials	GRATIS
	Inadequate supply of raw materials	**Bilateral /Multilateral agencies:**
	Outmoded equipment	APDF (IFC)
	High cost of replacing old equipment	Empretec (UNCTAD)
	Difficulty in finding appropriate equipment	Technoserve (USAID)
	Poor quality of local raw materials	
	Poor quality of imported raw materials	
	Economic and regulatory:	
	High rate of inflation	
	High depreciation of the cedi	
	High tax and import duties	
	Registration / Licensing / Red tape	
	Corruption	
	Infrastructure:	
	High cost of utility charges	
	Lack of industrial sites	
	High transport costs	
	Low quality of electricity / water supply	
	Poor telecommunication networks	
	Socio-cultural:	
	Use of business resources to support family	

Table 5.1d: Definition of variables examined in the study

Gender	Dummy variable; entrepreneur is male = 1, otherwise = 0
Postgrad/ Prof/ Degree/ 'A' Level	The entrepreneur has postgraduate qualifications, professional qualifications, a degree or 'A' levels which are equivalent to high school graduation in the US.
Technical/ Vocational/ Apprenticeship	The entrepreneur has technical or vocational qualifications or has completed an apprenticeship.
'O' Levels	The entrepreneur has 'O' levels which are awarded to 17 year old school pupils.
Age Entrepreneur	Age of the entrepreneur in years- Younger entrepreneurs aged 16-39; middle-aged entrepreneurs aged 40-49; Older entrepreneurs aged 50+.
Previous Experience	Previous experience in business – experience as an owner-manager or an employee in a similar business.
Size	Number of employees.
Age of Business	Age of business in years- Young firms are aged less than 10 years and old firms are aged 10 years or greater.
Types of Business	Micro business < 9 employees; small, 10-19 employees; medium, 20-50 employees.
Growth	Employment growth over the period 2002-2005: declining <0%; stable 0%; medium growth >0% and ≤ 40%; fast growth > 40%.
R&D	Dummy variable; firm spends money on research and development = 1, otherwise = 0.
Family Business	Dummy variable; business employs one or more people who are from the family of the entrepreneur =1, otherwise = 0.
Training	Dummy variable; business provide training to the workforce = 1, otherwise = 0.
Exporter	Dummy variable; business exports goods and services = 1, otherwise = 0.
Innovation	Business involvement in incremental or novel innovation.
Manufacturing	Dummy variable; firm is from the manufacturing sector.
Services	Dummy variable; firm is from the services sector.
Agriculture	This is the excluded comparison variable.
Conurbation	Conurbations are firms located in Accra (the Capital), Tema and the surrounding area.
Large Town	Large towns are settlements with populations of 150,000 to 1,500,000.
Small Town	Small towns are settlements with populations of less than 150,000. This is the excluded comparison variable.

5.4 Operationalisation

The main objectives of this study are to identify and understand the nature of small businesses problems and to examine the role of BDS in assisting small businesses to overcome those problems. To understand the nature of problems faced by small businesses, their use of business advice and growth, one needs to design an appropriate research methodology that would guide him/her throughout the research process in order to achieve the objectives of the study. The design of the appropriate research methodology calls for a clear understanding of the philosophy of research paradigms (Easterby-Smith et al., 2002; Gill and Johnson, 1997). Easterby-Smith et al. (2002: 27) noted that failure to think through philosophical issues (research paradigms) such as this, while not necessary fatal, can seriously affect the quality of management research.

Easterby-Smith et al. (2002: 27) gave three main reasons why an understanding of philosophical issues is very useful. First, philosophical issues can help to clarify research designs. Second, knowledge of philosophy can help the researcher to recognise which designs will work and which will not. Third, knowledge of the philosophy can help the researcher to identify, and even create, designs that may be outside his or her past experience.

There are two main philosophical traditions or research paradigms: Positivism and phenomenological which are commonly referred in most research textbooks as quantitative and qualitative. The positive paradigm in the social sciences is based on the approached used in the natural sciences such as biology, botany and physics (Hussey and Hussey, 1997: 51). The key idea of positivism is that social world exists externally, and that properties should be measured through objectives methods, rather than being inferred subjectively through experience or intuition (Hussey and Hussey, 1997). The

Positivist approach to research is associated with rigour, objectivity and logical reasoning while phenomenological paradigm is associated with meanings and depth of knowledge (Easterby-Smith et al., 2002; Grant and Perren, 2002). However, Davidsson (2004: 58) noted that not all research that involved quantitative approach could be classified as objectives and rigorous and it could be possible for quantitative research to be sloppy rather than rigorous. In terms of the depth of the research Davidsson (2004) pointed out that there was no inherent property in quantitative data that prevents the researcher to investigate deeper into the analysis and interpretation.

The phenomenological paradigm is concerned with the understanding human behaviour from the researchers own perspectives. In contrast to positivism paradigm, phenomenological paradigm is based on the assumption that social reality is within us, therefore, the act of investigating reality has an effect on the reality (Hussey and Hussey, 1997: 53). The main difference between the two paradigms is that while theory is the outcome of phenomenological paradigm, positivist paradigm commences with the development of conceptual and theoretical structure (Gill and Johnson, 1997). Easterby-Smith et al. (2002: 31) noted that the methods of phenomenological research (social construction) can be contrasted directly with the features of the classical positivist research which are summarised in Table 5.2.

Table 5.2 provides underlying principles behind each model. Whilst positivism is concerned with objectivity and focuses on facts, a phenomenological approach views reality as socially constructed and is therefore concerned with meanings and trying to understand situations (Jack, 2002: 111). In an attempt to bridge the paradigmatic gap,

Table 5.2 Contrasting implications of positivism and social construction

	Positivism	**Phenomenological (Social construction)**
The observer	must be independent	is part of what is being observed
Human interests	should be irrelevant	are the main drivers of science
Explanations	must demonstrate causality	aim to increase general understanding of the situation
Research progress through	hypotheses and deduction	gathering rich data from which ideas are induced
Concepts	needs to be operationalised so that they can be measured	should incorporate stakeholders perspectives
Units of analysis	should be reduced to simple terms	may include the complexity of 'whole' situations
Generalisation through	statistical probability	theory abstraction
Sampling requires	large numbers selected randomly	small numbers of cases chosen for specific reasons

Source: Easterby-Smith et al (2002: 30).

Grant and Perren (2002) observed that some small business and entrepreneurial researchers combine the two paradigmatic positions with the aim of exploiting the strengths and minimising the weaknesses of each paradigm (Curran and Blackburn, 2001). However, Grant and Perren (2002: 201) noted that research studies that adopt this approach with the aim at presenting a more robust view appeared to fall short of thoughtfully articulated philosophical position.

5.4.1 Choice of research strategy

Given the objectives of this study, the research questions to be addressed and the review of the literature, this study adopted a positivist or quantitative research approached (Gill and Johnson, 1991). According to Hussey and Hussey (1997: 51) a quantitative approach ensured that 'the logical reasoning is applied to the research so that precision, objectivity and rigour replace hunches, experience and intuition as the means of investigating research problems'. Notwithstanding this benefit, Gartner and Birley (2002: 388) noted that a quantitative approach to the study of small business implied that, 'some questions simply do not get asked, or can not be asked'. Other researchers have also noted that a quantitative approach fails to provide meaning to the phenomenon being investigated (Buame, 1996; Jack, 2002). In spite of those limitations evidence from recent publications of the leading journals of small businesses and entrepreneurial research suggests that the majority of researchers in this discipline have adopted objective approach (Grant and Perren, 2002; Watkins-Mathys and Lowe, 2005).

Taking into consideration the view of Watkins-Mathys and Lowe (2005: 670) that different paradigms in small business and entrepreneurial research should coexist without division and also learn from each other and also the limitations of each paradigm, the data collection technique of this study has been designed by combining the quantitative and qualitative data. This approach was adopted to ensure that the results obtained from the quantitative data were given meanings by the qualitative data. This approach also supports Grant and Perren's (2002: 202) conclusion that 'the health and future development of research in this area require a broadening of perspectives to enable debate, friction, creativity and ultimately new theories and understandings'. Furthermore, Davidsson (2004) noted that the method used in gathering data itself does not make the researcher positivist but rather the meaning given to the data that determines the researchers methodological approach.

5.4.2 The rational for the choice of research area.

Ghana was chosen as the research site because of the following reasons. First, Ghana has enjoyed a stable political climate since the introduction of the Economic Recovery Programme (ERP) in 1983 and there has been consistent growth in GDP for over a decade. Ghana has also been adjudged as one of the most advanced emerging sub-Sahara African nations and has the best conditions to develop an entrepreneurial economy. Second, since Manuh's (1988) study of Extension Services for Small Scale Enterprise Development in Developing Countries there appears to be a lack of academic research in this area. In most cases small businesses' policy evaluations have been undertaken by government sponsored agencies that were more likely to report favourable findings (Curran and Storey, 2002). Third, the researcher comes from Ghana and has the local knowledge of the research area and the businesses to be contacted. The researcher had been directly involved in the management of small businesses and had also provided consultancy services to small businesses. The knowledge of the research area could serve as resource during the questionnaire administration where local network could be taped to get access to the respondents (Buame, 1996; Jack, 2002).

5.4.3 Selecting the sample frame

Developing a suitable sample frame in small business research is a difficult undertaking even in the developed countries as a result of a lack of detailed industrial listings from both public and private sector sources (Jay and Schaper, 2003; Buame, 1996). For instance, Curran and Blackburn (2001) observed that in the UK there was no single public accessible register of small businesses. Even in circumstances where those databases exist, they provide little information about the businesses and date rapidly because of the high level of churning of the small business population (Jay and Schaper, 2003). In Ghana, the story is not different as the last official industrial census at the time of doing the fieldwork was undertaken in 1987.

In an attempt to determine a suitable sample frame for this study different sources of business listings were assessed for their suitability for this study (See Hall, 1995; Delmar et al. 2003). The first source which was contacted was the Ghana Statistical Service which is the publishers of the Directory of Industrial Establishment in Ghana. This directory is published after an industrial census has been undertaken. The directory provides information about the name of the establishment, the location, postal address, and business activity, type of ownership, the number of persons engaged, and the number of skilled persons engaged. This directory represents the most comprehensive and reliable source of business information in Ghana for research purposes. However, the directory could not be used because the latest edition at the time of conducting the survey was published in 1987. Because it had not been reviewed for the best part of two decades, the information contained in had become out of date as observed by Buame (1996). Most of the listed businesses had moved or had ceased to operate or had merged with other businesses hence making their location difficult to establish. Interestingly, at the time of writing up the chapter the background and the results of the 2003 National Industrial Census was released (See Ghana Statistical Service, 2006).

The second source was the Ghana Export Promotion Council. The council has compiled a list of 299 active exporters in the country as at March, 2005. Businesses registered with the council were given tax rebates. The list contained information about the registered name of the business, the business activity, address, physical location and the telephone numbers. There were no information concerning the type of ownership or the number of persons engaged which made it difficult to identify the businesses which fell within the sample selection criteria. This list could not be used alone because it contained information about exporters alone.

The third source was the Ghana Employers Association directory of its members. The association's 2003 annual report contained a list of 345 active members. This list could not be used in its entirety because most of the businesses registered with the association were large scale and also located in the Greater Accra region.

The fourth source contacted was the list of the Association of Ghana Industries members. The list provided information about the active members of the association such as the name of the business, the postal address, location and the type of the business activity. The main limitations about this list were that most of the businesses registered with the association were large scale and therefore did not meet the criteria for the sample selection. Furthermore, the majority of the businesses listed were located in either Accra or Kumasi.

Fifthly, the Internal Revenue Service listing of businesses could also not be used because only tax registered businesses had their information on the list. Finally, the Ghana Telecom Telephone Directory for 2002 was consulted. The directory contained information about the name of the company, the type of business activity, the location of the business and the telephone number. This directory has the largest business listing from all the sectors of the economy and also covered the entire country. However, information about the businesses contained in the directory was not detailed enough to include the number of persons engaged and the type of business ownership.

A lack of official data on small businesses in particular and businesses in general was observed by Steel and Webster (1992: 20) over a decade ago. The trend has not changed since Buame (1996) also made a similar observation when conducting a study on entrepreneurship in Ghana. In a more recent study, Wolf (2004: 5) noted that 'in the mid 2003 there was no current list of all agricultural and manufacturing enterprises existed'. In the absence of a single public register on small businesses and the limited information provided by the available sources, this study used multiple sources of business listings for the sample frame. The following sources were used, the Ghana Export Promotion Council listings, the Ghana Employers Association, the Association of Ghana Industries and the Ghana Telecom Telephone Directory for 2002. To conclude, it is important to note that a lack of an official business listing does not affect the strength of the research study as Davidsson (2004: 68) pointed out that 'social science research is not opinion polls and theories are not built by democratic vote'. What is important in social research is 'theoretical representation' that is, whether the study cases are relevant to the type of theory being tested or developed (Curwin and Slater, 2002). This approach would also minimise biases that were associated with the use of a single database source as concluded by Murphy (2002).

5.4.4 Criteria for sample size selection

'Representative sampling and associated significant testing are important safeguard against ignoring important parts of empirical population' (Davidsson, 2004: 68). In small business research simple random sampling could lead to a lack of representation of the sample population (Gill and Johnson, 1991; Barkham et al., 1996) especially in a small businesses research where a significant number of the businesses have less than one employee (Davidsson, 2004). Evidence from previous studies has also demonstrated that the nature of the Ghanaian business environment did not warrant the use of random sampling in the strict sense (Manuh, 1988; Buame, 1996). For instance, Manuh (1988: 221) argued that 'quota sampling was the only practical method in Ghana of a sampling population for which no suitable frame was available'. Depending on the objectives of the study several factors could affect the selection of the sample size that includes the size of the businesses, location and the time frame of the study (Barkham et al., 1996). The main criteria for the sample selection of this study included the following:

Firstly, the business should employ a minimum of four and a maximum of fifty full-time workers at the time of the fieldwork. The minimum level was set to ensure that the number of micro businesses captured within the sample size is reduced to the minimum (Steel and Webster, 1992: 424; Bartlet and Bukvic, 2001; Davidsson, 2004). The maximum level of fifty was used because businesses within this range were the focus of the Ghanaian government and also served by the business support organisations such as Empretec Ghana Foundation.

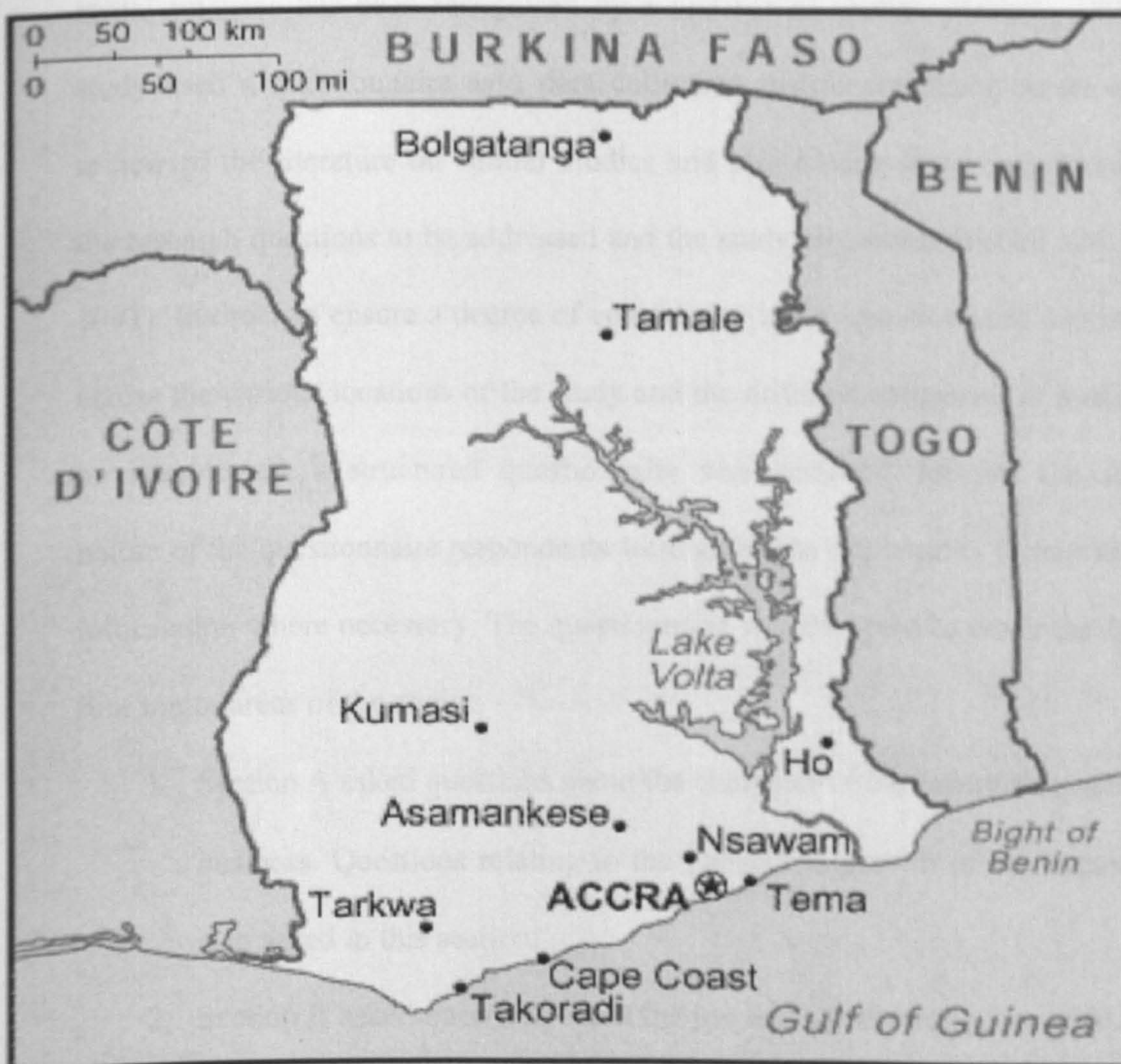
Secondly, the study was designed to cover all the three sectors of the economy, agriculture, manufacturing and service. This was to ensure a fair representation of the small businesses sector as a whole (Bartlett and Bukvic, 2001; Barkham et al., 1996). In many small business studies, the agricultural sector is usually not included in the sample but in this case the agricultural sector was included because of the significant contribution the sector makes to the country's GDP although the sector's contribution to GDP has declined consistently since the introduction of the Economic Recovery Programme in 1983.

Thirdly, the business should be located in the five regional capitals and selected small towns in six regions. The selection of the study areas was influenced by a number of factors including significant variations in their geographical positions ranging from urban and rural locations in the coastal areas (Greater Accra, Central and Western Regions noted for the concentration of the majority of the nations manufacturing industries and also tourism and fishing activities), forest regions (Eastern and Ashanti Regions which are noted for cocoa, mining, agro-businesses and woodwork industries) and the savannah region of the country (Northern Region noted for livestock and other farming activities). These regions have varied demographic characteristics and economic activities. These variations could enhance the comparisons small businesses growth potentials in the different locations of the country (Barkham et al., 1996; Keeble, 2003). Table 5.3 provides a summary of the survey of the respondents by region, and Figure 5.2 shows a map of Ghana.

Table 5.3 Survey of respondents by regions

Region	Regional Capitals (Urban)				Small Towns
		No	%		
Greater Accra	Accra / Tema	277	55.4	Conur.	Ada
Ashanti	Kumasi	51	10.2		Konongo,Agogo
Western	Secondi-Takoradi	15	3	Large	-
Northern	Tamale	42	8.4	Town	Savelugu
Central	Cape Coast	40	8	Small	
Eastern	-	-	-	Town	Aburi, NewTafo Suhum, Nsawan

According to the 2003 National Industrial Census Report businesses located in the sample frame constituted about 83.5% of all manufacturing establishment and employed about 91.8% of the total labour force in the manufacturing sector of the country. However, the low number of businesses contacted in Secondi-Takoradi was due to a very low response rate (Ghana Statistical Service, 2006: 52).



Source: www.state.gov/p/af/ci/gh

Figure 5.2: Map of Ghana

5.4.5 The data collection instrument

The importance of a questionnaire as an instrument for data collection in the social sciences has been recognised by a number of studies (Baruch, 1999). This study used a questionnaire as a data collection instrument based on an extensive review of the literature on similar studies and also having taken into consideration the research questions to be addressed and the study environment (Gill and Johnson, 1991). In order to ensure a degree of consistency in the questionnaire administration across the various locations of the study and the different categories of businesses to be interviewed, a structured questionnaire was designed. Despite the structured nature of the questionnaire respondents were given the opportunity to provide further information where necessary. The questionnaire was designed to cover the following four major areas of the study:

1. Section A asked questions about the character of the owner-manager and the business. Questions relating to the barriers to growth of the business were also asked in this section.
2. Section B asked questions about the use and satisfaction of external business advice.
3. Section C covered questions about the provision of training and reasons for the non-use of external business advice.
4. Section D asked questions about innovation and performance of the business.

The Appendix 1 provides a copy of the questionnaire administered.

5.4.6 Unstructured questionnaire

In order to overcome some of the limitations associated with the positivist approach to research study, an unstructured questionnaire was designed for service providers in order to gain more insights into the problems faced by small businesses, the level of use and satisfaction obtained by their clients. Questions about the reasons for the low patronage of their services by small businesses were also asked. After an extensive review of the questionnaire based on the comments and suggestions from PhD colleagues, my supervisors and the other researchers in the business school, the researcher travelled to Ghana in January, 2005 to commence the questionnaire administration. The fieldwork was completed in June, 2005.

5.4.7 Questionnaire administration

Prior to the main survey a pilot study was undertaken to gauge how respondents would interpret and react to the questionnaire and also to unearth any potential problems that would be likely to occur during the main survey (Gill and Johnson, 1991; Hussey and Hussey, 1997). The pilot study was undertaken in two stages. The first stage was the meeting with the heads of the Business Development Unit of Empretec Ghana Foundation and the Business Advisory Unit of NBSSI in Accra for their comments and suggestions on the survey questionnaire. Their inputs resulted in the revision of the Section B of the questionnaire that asked specific questions about these organisations. The second stage involved a pilot study of face-to-face interview of 25 owner-managers. The following unanticipated problems were revealed:

1. Some owner-managers were not willing to complete the questionnaire immediately and preferred the questionnaire to be collected at a later date.

2. Respondents without formal education could not complete the questionnaire without the researcher's assistance.
3. About three of the questions had to be rephrased to make their meaning understandable to the respondents.

Following the completion of the pilot study, the main survey begun using a face-to-face questionnaire administration technique. Although this technique has been considered by some studies as expensive and time consuming (Hussey and Hussey, 1997; Curwin and Slater, 2002), this method ensures that comprehensive data about the respondents was collected (Kirby, 1990: 80; Barkham et al., 1996). For instance, Barkham et al. (1996: 20) noted that this method of data collection enable the researcher to obtain a set of in-depth information about the personal profile of the business being surveyed. Furthermore, an unreliable postal system and changes in the location and addresses of companies from time to time made it impossible to use a mail-out survey (Amponsah, 2000). This method also ensured that a high response rate was achieved. The final reason was to enable the researcher to assist respondents who could not complete the questionnaire on their own.

In all cases the aim of the researcher was to interview the owner-manager. Taking into consideration the sample selection criteria, respondents were randomly selected but only those that met the selection criteria were interviewed by the researcher. A total of 500 questionnaires were administered in five regional capitals in addition to Tema and eight small towns as shown on Table 5.2. The sampled size of 500 businesses appeared to be fair representation of the sampling population for this study as many previous studies in the study area used sample sizes far less than this value (See, Manuh, 1988; Steel and Webster, 1992; Wolf, 2004; Abor and Biekpe, 2006). The 500 administered questionnaires represented a response rate of

83.2% of the total questionnaires issued out. The high response rate was due to the face-to-face administration of the questionnaire.

5.4.8 The in-depth interviews

In order to gain a better understanding about the nature of services, the levels of use and satisfaction and the reasons for the non-use of business advice, unstructured interviews were undertaken with seven service providers and Government Ministries associated with the development of small businesses in Ghana. The following institutions were visited by the researcher and the heads from the business development services were interviewed by the researcher.

1. Empretec Ghana Foundation- Business Development Unit
2. National Board for Small-Scale Industries – Public relations manager and the head of Business Advisory Centre, Accra.
3. Association for Ghana Industries – Head of the Business Development Unit
4. Private Enterprise Foundation – Head of the Business Development Unit
5. FAGE – Head of the Business Development Unit
6. SPEED – Head of the Business Development Unit
7. Ministry of Trade and Industry – Public Relations Office

In most cases each interview lasted between 30 to 60 minutes and all the data gathered were mainly qualitative. Data gathered were transcribed and the common themes were summarised and used to support some of the results from the quantitative analysis.

5.4.9 Problems encountered during the fieldwork

The first major problem encountered during the fieldwork was unwillingness of some owner-managers to take part in the survey. One possible reason was the hike in the fuel prices which many owner-managers attributed to the government and were therefore hostile to any person whom they taught was a government official. Furthermore, some owner-managers complained that their businesses had been flooded with questionnaires from consultants and researchers who had taken huge amount of money from the government and the multinationals to undertake projects that had no benefit to their businesses. To overcome these problems the researcher had to convince them that this study was not a government nor sponsored by a multinational organisation but purely an academic work. Here the introduction letter from the Business School was shown to them. The researcher also used his local knowledge of the business environment and the reasons for undertaken this project and how the findings could help the government in policy formulation towards the promotion of small businesses. After a lengthy discussion with them some changed their mind and agreed to take part in the survey.

The second problem encountered was that during the fieldwork it was found that some owner-managers without a formal education could not complete the questionnaire without interpreting it to the local language. In most cases the researcher was able to interpret the questionnaire himself because he comes from the area. However, there were few cases that the researcher had to solicit the assistant of an interpreter because he could not speak the local language. In order to ensure that the questionnaires were interpreted accurately, the interviews in those instances were recorded and given to a third person later for interpretation and comparison. In cases where there was significance difference between the two interpretations, a final interpretation was undertaken for the selection of the final version.

Another problem encountered was the difficulty associated with the location of the businesses contacted. Due to the poor house/ premises numbering system and the lack of Zip Code numbering in the country it became obvious that locating a business for interview was indeed a difficult task. Interestingly, the researcher knowledge of the local people and the ability to speak the local language always ensured that there was somebody from the local area ready to help although monetary incentives were given in some cases.

Finally, it is important to note that due to the poor record keeping and also the unwillingness of some respondents to release data on profits, sales and productivity this has meant that a substantial proportion of the data gathered for the statistical analysis was based on the perceptions of the owner-managers.

5.5.1 Sampling procedure

Table 5.4 below provides a summary of the multiple data sources used for the study. The combined business listings provided a database of 20,270 businesses. Inadequate information on business address, location, and unreliable telephone numbers prevented the researcher to gain access to the majority of the businesses provided in the database. As a result about 707 small businesses were randomly selected and contacted. The availability of detail information about the business played substantial role in the selection. The first stage of the survey process involved the researcher contacting the owner-manager through a personal visit to the business premises or by telephone where possible and asking basic information about the business such as the year of establishment, business activity, and the number of employees.

Out of the total 707 businesses contacted, 106 businesses were excluded from the sample population because of the following: First the business size did not fall *within the sample selection criterion of a minimum of 4 to a maximum 50 full-time* employees of the business. Second the business did not meet the time frame of 2001 which should have been the year of establishment. Section 5.4.4 provides more details about the rationale for the selection criteria. In all a total of 601 questionnaires were administered based on face to face interviews by the researcher and 500 useable questionnaires representing a response rate of 82.3% was achieved. Table 5.4 below provides a summary of the sample procedure of the study.

Table 5.4 Sampling procedure

Data Source	No. of Firms in database	No. of Firms contacted	No. of Firms excluded	No of Firms actually surveyed	No of useable responses received
Ghana Export Promotion council	299	78	15	63	48
Ghana Employers Association	345	102	24	78	67
Association of Ghana Industries	907	350	35	315	268
Ghana Telephone Directory	18719	177	32	145	117
Total	20270	707	106	601	500

5.5.2 Examining non-response bias

Among the reasons for the non-response was the unwillingness of some owner-managers contacted to take part in the survey and this group formed about 52% of the total non-response rate. Buruch (1999: 423) noted that in recent years many organisations were flooded with questionnaires from different sources and this could explain the reason for the high rate of owner-managers not willing to be involved in the survey.

In order to test for non-response bias, basic information such as the number of employees and the business activity were gathered from the businesses that collected the questionnaires but never responded. This information was compared with the surveyed businesses using Bullock's (2003: 117) technique and Kruskal-Wallis test results for respondents and non-respondents revealed no statistical association.

Furthermore, the wide coverage and the large sample size of the survey also provided an indication of the representativeness of the sample frame. However, qualitative information gathered during the survey revealed that businesses owned by people of Middle-East and Asians origin were more likely not to respond to questionnaire than the other owner-managers.

5.6. Data presentation and analysis

The research method used in data collection has a significant effect on the type of data analysis employed (Hussey and Hussey, 1997; Curran and Blackburn, 2001), and this study largely used statistical techniques to analyse the survey data because significant proportion of the data gathered were based on the quantitative technique. However, because interview technique was used to administer questionnaires qualitative data was also gathered during the survey. Qualitative data gathered during the survey were transcribed and the common themes that emerged were used to support the results obtained from the statistical analysis. This section discusses the techniques in data input, presentation and analysis.

5.6.1 Data editing, coding and input

Each questionnaire was given a four-digit identification number to ensure easy identification. The returned questionnaires were edited consistently to ensure accuracy and completeness and those questionnaires with a lot of missing data were either referred back to the respondent for completion or rejected. This exercise was enhanced by the fact that the respondents had their contact numbers written on the back of the questionnaires. After editing the data were coded and keyed into excel software before exporting to SPSS for analysis and this process continued until the last questionnaire was completed. The main reason for exporting the data to the SPSS was the large volume of the survey data coded which could not be analysed effectively using Microsoft Excel software. In order to check the accuracy of the keyed data, a third party not involved in the research work checked the data already entered with the questionnaires and no significant error was found with regard with the data input.

5.6.2 Data analysis

Empirically studies on barriers to small business growth, the use of external business advice had focused on the developed countries where studies in this area in the developing countries have been limited to desk top research. The statistical techniques used in the analysis of the survey data involved two stages namely, exploratory and multiple regression analysis. Under the exploratory technique, the survey data were presented in the form of frequency distribution tables and graphs where mean values were computed in some cases. The main reason for using this technique was to ensure that a large number of the explanatory variables were considered (Roper, 1998: 14). Table 5.4 provides a summary statistics of the characteristics of the business and the owner-managers in a survey of 500 small businesses interviewed. The study measured the growth rate of the businesses based on the number of employees from the period 2002 to 2005 and the mean growth rate of 6.4% was determined based on the relative rate of growth. The table also revealed a mean employee-size of 11.5 and the mean age of the businesses was 11.37 years. In terms of the composition of the sectors, 43.4% of the businesses interviewed were in the service sector while 38.6% and 18% were in the manufacturing and the agricultural sectors, respectively. Information on businesses involvement in the exporting, innovative and R& D activities have also been provided.

Table 5.5: Descriptive Statistics of the sample.

	Mean	Standard Deviation	N
Growth per annum 2002-2005	6.4%	23.468	470
Size	11.478 employees	11.233	498
Exporter	0.204	0.404	500
Innovator	0.637	0.481	496
R&D	0.200	0.400	496
Training	0.586	0.493	500
Family Business	0.724	0.448	500
Gender	0.866	0.341	500
Age owner-manager	44.27 years	10.871	481
Distribution of Characteristics			
Age business	11.37 years	8.920	496
Manufacturing	38.6%		193 (500)
Services	43.4%		217 (500)
Agriculture	18.0%		90 (500)
Highest Education Attained: Postgrad/ Prof/ Degree/ 'A' Level	30.4%		152 (500)
Technical/ Vocational/ Apprenticeship	21.4%		107 (500)
Secondary School Certificate/ 'O' Level	17.0%		85 (500)
Junior School Certificate or No Education	31.2%		156 (500)
Conurbation	55.4%		277 (500)
Small Town	23.0%		115 (500)

Furthermore, family involvement in the business activities and the percentage of the businesses located in the conurbation and small towns were also provided. With regard to the owner-managers characteristics the Table 5.4 shows an average age of 44.27 years and the gender mean value of 0.724 while about 31.2% of owner-managers had educational qualification below Junior school certificate level and 30.4% having education qualification of above Advance level.

To explore the strength of statistical association among the variables under study and also to test the hypotheses set, Mann-Whitney U test was used for two group comparisons while Kruskal-Wallis test was used for multi-group comparison. In most cases significant levels were set at 1%, 5%, and 10%. Here barriers to growth factors and the sources and use of external business advice were run against the characteristics of the business and the owner-managers.

In order to provide a further explanation of the behaviours of the variables under study, multiple regression analysis was used. According to Aaker (1971: 3) regression analysis is the most commonly used technique for analysing dependence and its underlying theory is the most developed. Curwin and Slater (2002: 425) also made a similar observation by pointing out that multiple regression is a powerful statistical technique that enables researchers to make a better prediction about the behaviour of dependent variables than simple two variable models. Specifically, an estimate of the logit model was used to examine these relationships because the responses were binary, '1' if a source is used and '0' if a source is not used. In the case of impact, the respondents' responses were based on a scale of from 1 to 4 and this was modelled using ordered logit regression techniques. Notwithstanding the benefits associated with the use of multiple regression techniques, the use of this method is associated with the problem of multicollinearity, that is, high correlation between two or more independent variables, (Curwin and Slater, 2002; Aaker, 1971). The running of bivariate test on independent variables at the initial stage of the analysis ensured that highly correlated variables were identified and eliminated before the multiple regression test analysis was undertaken.

5.7 Validity and reliability of survey findings

According to Davidsson (2004: 105) validity and reliability are important issues in social science research because if an operationalisation has significant systematic measurement errors the research data could lead to false estimation of relationships. To ensure that the research findings are valid and reliable a number of measures were undertaken during the operationalisation stage of the research methods, analysis stage and the findings stage.

First, the operationalisation of the theoretical concepts was designed to ensure that instruments used to measure empirical variables were the most established method that have been used consistently in similar studies. For instance, in terms of identifying the problems faced by small businesses, this study used a classification technique developed by Terpstra and Olson (1993), while the business advice and the growth chapters were designed along the lines of Bennett and Robson (1999, 2003), Storey (1994), and McMullan et al. (2001) studies. Since the publications of these studies, evidence from the literature on empirical studies have confirmed that a number of empirical studies (Huang and Brown, 1999; Mole, 2002; Ramsden and Bennett, 2005; Berry et al. 2006; Barkham et al. 1996; Almus and Nerlinger, 1999; Davidsson et al. 2002; Rauch et al. 2005) have followed similar approach. As pointed out by Brown et al. (2001: 953) 'the sheer number of studies applying this measure suggests that it is useful instrument for measuring important aspect of entrepreneurship'.

Second, the findings from this study were also compared with studies which probably adopted similar operationalisation strategy and also similar studies undertaken in the research area and their findings appeared to be similar to this study. Specifically, Wolf (2004) study on the performance and problems of enterprises in Ghana drew conclusions that were similar to the findings of this study. Furthermore, the survey findings on the levels of use and satisfaction of business advice appeared to provide similar results in studies undertaken in the UK and other developed and developing countries (Berry et al. 2006; Ramsden and Bennett, 2005; Bennett and Robson, 2003; Jay and Schaper, 2003; and Boter and Lunstrom, 2005). Although Davidsson (2004: 106) noted that the reason that other studies have used similar approach or produced similar result provided a weak criterion for testing validity of research findings, however, Brown et al. (2001) noted that comparing and contrasting research findings with similar studies is an important validation task and this observation was supported by Manuh (1988).

Finally, the use of the bivariate test to analyse the survey data and the subsequent use of multiple regression analysis that provided further evidence for the bivariate test results was an indication of the validity and the reliability of the survey findings. This approach of testing the validity and reliability of the survey data had beėn supported by Curwin and Slater (2002) and Davidsson (2004).

5.8 Conclusion

This chapter has examined the research methodology that this study adopted to investigate the research problems. The research strategy adopted was based on the objectives of the study which were to identify and understand the problems that hinder small businesses' growth and to examine the role of external business advice in promoting small businesses growth in Ghana. The rational for the study was to contribute to the growing knowledge in the field of small business and entrepreneurship in Africa and to influence policy initiatives in small business development.

The theoretical framework of the study was categorised under three main areas: the barriers to growth, the external business advice and business growth. A conceptual framework which depicts the interrelationships among the characteristics of the owner-manager and the business, the barriers to growth, the use of business advice and the business growth was presented. Taking into consideration the research objectives, the research questions, and the review of the literature of the two main research paradigms, a positivism approach was adopted for the study. In order to address some of the limitations associated with this research approach, it was decided to use data collection technique that embraced both qualitative and quantitative methods (See Grant and Perren, 2002; and Davidsson, 2004).

Due to the lack of suitable database for small businesses research in Ghana, a multiple data sources were used for the selection of the research sample. Criteria used to select the businesses included employment size, operational time frame and the location. A total of 500 owner-managers were interviewed from six regions in Ghana and 82.3% response rate was achieved. Furthermore, an in depth interviews of seven government institutions and service providers were also undertaken. The questions covered information about the character of the owner-manager, the business, barriers to growth, the use of external advice and training, businesses involvement in innovation activities and performance. The data gathered were analysed using SPSS software and the statistical techniques used included descriptive statistics and multiple regression analysis. Validity and reliability tests undertaken were explained to conclude the chapter.

Chapter 6

The Barriers to Growth in Ghana

6.1. Introduction

There is a vast entrepreneurship and small business literature which is concerned with explaining the factors behind successful firms, particularly papers looking at the determinants of growth (Littunen and Tohmo, 2003; Yasuda, 2005) and testing Gibrat's law of proportionate growth (Yang and Huang, 2005). There has been less research into exploring the problems which are encountered by entrepreneurs in their business activities, and most of the attention has been upon developed nations such as the US and the UK (Orser et al. 2000; Storey, 1994; Smallbone et al. 1995). Previous studies have examined barriers to growth in Hong Kong (Moy and Luk, 2003) and in Lithuania (Aidis, 2005). However, there have been very few studies into the barriers and problems encountered by entrepreneurs in Ghana, an emerging or developing nation, and Africa more generally (Wolf, 2004; Tagoe et al. 2005; Mambula, 2002; Trulsson, 2002).

The role of entrepreneurs in promoting the economic development of nations has been widely recognised (McPherson, 1996; Mead and Liedholm, 1998). Although commission after commission (Ghanaian Enterprise Development Commission, 1975; Ghana Business Promotion Act 1970) have been set up in the past to investigate the problems and to provide institutional support for enterprise development in Ghana (Ninsin, 1989), there have been comparatively few large scale studies of Ghana (Wolf, 2004), and amongst research adopting multivariate regression techniques there is a further paucity of research. Thus, there is still a need for the Ghanaian government to identify and respond to the needs of entrepreneurs.

This chapter presents the results of ordered logit regression models of the problems faced by 500 owner-managers from six regions of Ghana against the characteristics of the entrepreneurs and their businesses and whether these were systematically related to a list of 37 factors that they perceived as limiting their ability to achieve their objectives in the last three years, and they were also given the opportunity to indicate if there were other factors not included in the list. Respondents indicated whether the factors fell into one of four categories, not important, moderately important, important, or crucial limitation. This ordered relationship resulted in the need to use ordered logit regression models.

An understanding of the problems faced by entrepreneurs is of great importance to academics and also policy makers, so that our understanding of entrepreneurship can be advanced and also that public sector money is advantageously spent for the benefit of fostering growth. Whilst the focus of the research is Ghana, comparisons with business problems and difficulties in the US, UK and other countries will also be made in the chapter.

This study is therefore aimed to identify and understand the nature of entrepreneurship in Ghana and to identify the problems which entrepreneurs encountered. If Ghana, and Africa more generally are to grow and to achieve levels of prosperity which are closer to those levels enjoyed in developed countries such as the US then there is a need to better understand entrepreneurs' problems. The next section briefly reviews the previous research. The third section describes the hypotheses which are tested against the characteristics of the businesses and the entrepreneurs. The fourth section presents the main research findings. Lastly, a conclusion completes the chapter.

6.2. Previous Research

Tagoe et al. (2005) used six case studies to examine the impact of financial sector liberalisation (FSL) policies on the formal management of small and medium-sized enterprises in Ghana. Tagoe et al. (2005) found that the main financial challenge facing SMEs was access to affordable credit.

Wolf (2004) analysed a data set of 100 enterprises in the formal commercial agricultural and manufacturing sector in Ghana. Wolf's (2004) study examined exporters, performance indicators, and the main business obstacles. Wolf (2004) used a six point scale of: not, little, somewhat, quite, very, and extremely, and reported the results of seventeen factors, but did not relate these to the characteristics of the enterprises or their owners. She found that interest rates (62%), access to credit (52%), depreciation (46%) and inflation (43%) were the four most important business obstacles in Ghana, where the percentage in parentheses were the combined very or extremely problematic scores.

Mambula (2002) interviewed thirty-two small business entrepreneurs in Nigeria as well as government officials, bank representatives and other experts. He reported the following four factors for the thirty-two respondents, lack of financing (72%), poor infrastructure (44%), difficulty getting machines and spare parts (41%), and difficulty getting raw materials (34%). Mambula (2002) also argued that some entrepreneurs indicated that government policies and attitudes of public officials adversely affect their businesses, especially the harsh economic policy of the structural adjustment programme (SAP) implemented by the government in 1986. However, he did not quantify this statement.

Aidis (2005) examined the inter-related effect of nineteen factors grouped into four types of barrier, (1) formal, (2) informal, (3) environmental and (4) skills in

Lithuania. Aidas (2005) using a sample of 322 business owners found that perceived formal barriers were associated with informal barriers such as corruption. She also found that environmental barriers were associated with skill barriers such as management problems.

Orser et al. (2000) used a survey of 1004 small and medium-sized Canadian businesses to investigate the problems that confront owners and managers at different stages in business development in order to better understand the growth process. They found that the severity of the problems varied by firm attributes, including size. Also Orser et al.'s (2000) results showed that micro operations were more likely to encounter problems of demand, the availability of alternative sources of finance, a lack of information about financing options, and a lack of financial expertise. Whilst female business owners were more likely in their study to report a lack of access to capital as a problem.

Moy and Luk (2003) used Kazanjian's (1988) four stages of business growth, conception and development, commercialisation, growth, and stability, and a modified list of obstacles which were tested by Theng and Boon (1996) in Singapore. Moy and Luk (2003) looked at obstacles that impeded the growth and success of Hong Kong SMEs, and their level of influence in each stage of the life cycle model. They found that competition was the major obstacle encountered by SME owner-managers in each of the four stages of development; capital was shown to be the major problem the owner-managers had to overcome at the conception stage, and also as they grew from commercialisation to growth.

6.3 Hypotheses

This chapter uses a survey of 500 entrepreneurs located in six regions of Ghana where approximately 91% of all businesses in the country are found (Ghana National Industrial Census, 1989), and this represented a response rate of 83.2%. The survey is drawn from the sectors of manufacturing (193), services (217), and agriculture (90), where the numbers in parentheses are the number of entrepreneurs in the respective sectors. The main criteria for selection were that the entrepreneur employed between four and fifty full-time workers. This range of employment was selected because they are the focus of the Ghanaian Government policy and are also the businesses served by the support organisations such as Empretec Ghana Foundation. In each case the entrepreneurs completed the written questionnaire which was given to them in person, by the researcher over the period of January to June 2005.

The 37 factors which could be barriers to entrepreneurs' firms achieving their objectives in the three previous years, 2002-2005, covered a broad range of factors and these have been categorised into the following seven groups: (i) finance, (ii) market, (iii) managerial and technical, (iv) inputs, (v) economic and regulatory, (vi) socio cultural, and (vii) other. The piloting of the survey minimised the number of factors which fell within the other group of factors.

Having outlined the data the chapter now turns to introducing the characteristics of the businesses and the entrepreneurs and the relationships that are expected against the entrepreneurs' perceptions of the factors which have and have not hindered their ability to meet their business objectives.

6.3.2 Family

A family business is defined in this chapter as any business which employs one or more family members who are related to the person running the business, and it is owned by that person and their family. In other words, an entrepreneur and their family control the business and there is at least one other member of the family working in the business. The contribution of family business in income generation, job creation and the development of the economy can not be underestimated. Even in developed countries family business contributes more than a half of the total national income and a similar proportion of the labour force (Kets de Vries, 1996; Morris et al. 1997). In Africa more than 90% of all businesses are classified as small and are privately owned (Saffu, 2004). However, there are few quantitative studies of Ghana (Wolf, 2004).

72.4% of businesses were family businesses. In Ghana as with many other African countries the entrepreneurs are put under pressure to provide employment and resources for their immediate and extended family. This suggests that the people recruited on the basis of being a member of a family may not necessarily have the skills, experience and expertise that the entrepreneur was seeking; or the entrepreneur may not have been looking to recruit, but family ties resulted in the family member being employed. The employing of a potentially less desirable, and possibly an unwanted group of workers may result in the business being less able to deal with day-to-day problems than those businesses which recruit on the basis of ability. Kotey (2005) and Sharma (2004) studies have also demonstrated that family businesses are more likely to face financial and managerial problems compared with the non-family businesses. Thus, it hypothesised that family businesses are more likely to face financial problems than non-family businesses.

6.3.3 Innovation

The literature on business growth and performance has argued that the survival or propensity of every business is perhaps determined by its ability to innovate (Barringer et al., 2005). Whilst Drucker (1994: 137) has placed an even greater degree of importance upon innovation and has argued that 'any enterprise that does not innovate inevitably ages and declines'.

In the survey the approach which was adopted to measure innovation activity was similar to that of the European Union Harmonised Community Innovation Survey (CIS) in that the respondents themselves identify whether innovation activity did or did not take place. In other words, a 'subject' approach is followed rather than an 'object' based approach where innovation counts are observed on the likes of patent statistics. Ghana, and Africa more generally are emerging markets, and the market for patents is still in its infancy and this together with the CIS precedent explains why a 'subject' approach was followed.

Respondents were asked to indicate whether they had introduced a novel innovation, an incremental innovation, or no innovation with regard to each of the following categories: (i) products or services, (ii) production processes (including storage), (iii) work practices, or workforce organisation, (iv) supply and supplier relations, (v) markets and marketing, (vi) administration and office systems, and (vii) product or services distribution. A novel innovation was one that was new to the entrepreneur's business and also new to the industry, whilst an incremental innovation was new to the entrepreneur's business but not new to the industry. 63.7% of the firms introduced either a novel or an incremental innovation from one or more of the seven types of innovation.

Empirical studies have supported the existence of a relationship between innovative behaviour of SMEs and their performance (Gunasekaran et al. 2000; Olomi, 1999). This notwithstanding, with regard to the association between innovation and barriers the case can be made for either a positive one. Innovating firms may by virtue of being state of the art encounter more problems and barriersIt therefore proposed that innovation businesses are more likely to be associated with barriers to growth than non-innovation businesses.

6.3.4 Size

The mean and the median size of the businesses were 11.9 and 8 employees, respectively. The literature on the degree of association between the size and the performance of businesses, as well as survival, has produced mixed results from one country to another (Liedholm, 2002). For instance, McPherson (1995) found in three African countries of Malawi, Swaziland, and Botswana that the size of the enterprise had no significant influence on the survival of the firm. However, a study undertaken in Britain by Cosh and Hughes (2003) reported a strong association between the size of the firm and the firm's constraints.

Larger sized firms have the wherewithal to overcome problems which are encountered. They may have more assets and slack resources and stronger cash flows and a greater capacity in marketing and selling than smaller firms. On the other hand, the smaller the firm the faster and more able they are to recognise opportunities and address issues so that they do not become barriers and obstacles. Given the fact that medium to large-sized businesses have more access to resources (both human and financial capital) than small-sized businesses, it is proposed that small-sized businesses are more likely to be associated to barriers to growth factors compared with the large-sized businesses.

6.3.5 Growth

Owner-managers in the survey were asked to record the level of employment in their firm in 2005 and three years earlier. Employing this data and following Brouwer et al. (1993), an annualized rate of growth for employment was included in the model. The mean and median rates of employment growth were 6.4% and 5.7%, respectively, per annum over the period 2002-2005. Modelling growth at the firm level has been found to be notoriously difficult with many factors conjectured to have a bearing upon growth (Westhead and Birley, 1995). In the models employment growth was included to capture the dynamic changes taking place in the business. It is expected that those firms which are growing are more likely than other firms to encounter barriers to achieving the businesses' objectives.

As Robson nand Bennett (2000) pointed out as a business expands its operation becomes complicated and faces more challenges than the normal businesses. Bartlett and Bukvic (2001) also made a similar obvervation when they noted that fast growth businesses experience worse business problems when compared with the slow growth businesses. Thus, it is hypothesised that fast growth businesses are more likely to be potiviely associated with barriers to growth factors compared with slow growth businesses.

6.3.6 Training

58.6% of the businesses provided training. The evidence on links between training and firms' performances are mixed. Some studies have failed to establish any strong link between training and improved performance (Westhead and Storey, 1996). Whilst other studies support the view that training could indeed improve the performance of the small firm (Cosh et al., 2000). It is against this background that this study has attempted to determine whether there are any statistically significant relationships between training and barriers. As with innovation, firms investing in training could be less likely to encounter barriers and limitations. By investing in training the firms could avoid problemsIt is therefore proposed that investment in training is negatively associated with barriers to growth factors.

6.3.7 Sector

43.4% of the respondents were from the service sector, 38.6% were from the manufacturing sector and 18% were from the agriculture sector. In the allocation of credit by the deposit money banks (DMBs) the agriculture sector has consistently received the lowest share with an average of 11.5%, while the manufacturing and the services sectors received 24.7% and 58.8%, respectively, between January 1995 to December 2003 (ISSER, 2003). In analysing the barriers and limitations facing businesses it is expected that the agriculture sector will be the most constrained sector, followed by the manufacturing sector and then the services sector. This ordering is expected in part because of the relative weightings the sectors received in the allocation of credit, and also because the agriculture sector is being exposed to subsidised food products and dumping from the European Union, the US, and China.

Thus, it is proposed that businesses in the agricultural sector are more likely to be associated with barriers to growth factors compared with those in the manufacturing and the services sectors.

6.3.8 Exporting

20.2% of the businesses were exporters of goods or services. Exporting goods and services involves exposure to markets outside of Ghana, to other African nations and beyond. Exporting firms require a set of skills and expertise with regard to both domestic and foreign markets. As such it would be expected that exporting firms were more likely than non-exporting firms to encounter barriers to achieving their objectives.

6.3.9 R&D

Research and development (R&D) expenditure is a measure of knowledge intensity and of the absorptive capacity of the firm (Hadjimanolis, 2000). 20.0% of the businesses spent money on R&D. Expenditure in research and development demonstrate a firm resource capability (human and financial capital) and its future growth aspirations. It is expected that those firms which engage in R&D activities encounter more barriers in achieving their objectives compared to businesses which do not perform R&D.

6.3.10 Age

The mean and median age of the firms was 11.4 and 9 years, respectively. Storey (1994) reviewed the small firm literature on the relationship between age and growth, and found that most previous research in the UK and the US showed that younger firms grow more rapidly than older firms. Whilst the mean and median age of the entrepreneurs were 43 and 44 years old, respectively. The debate as to whether the old entrepreneurs' firms grow faster than young entrepreneurs' firms has not been conclusive (Storey, 1994; Smallbone and Wyer, 2000).

The younger the entrepreneurs the smaller their level of experience and the smaller their degree of credibility in the business world, but the higher their level of dedication and energy. It is expected that younger entrepreneurs are more likely to encounter barriers than older entrepreneurs.

6.3.11 Sex

Male owned firms make up a greater proportion of self-employment in most countries (Brooksbank, 2000; Sowa et al., 1992). 86.6% of the entrepreneurs were men and 13.4% were women in the survey. Mead and Liedholm (1998) found in East Africa that the gender of the owner-manager was a significant determinant of the survival rate of the business. A study by Saffu and Manu (2004) reported that the Ghanaian female-owned firms were more likely to face financial constraints than their male counterparts. Another study undertaken in the US by Robb and Wolken (2002) found that female owned firms were considered to be a greater credit risk than the male-owned firms as measured by Dun and Bradstreet credit scores. Thus, we expect that female entrepreneurs will encounter more barriers than male entrepreneurs.

6.3.12 Education

A review of the literature on the relationship between the level of education of the entrepreneur or owner-manager and the performance of the business has established a generally positive relationship (Barringer et al. 2005; Mead and Liedholm, 1998; McCormick et al. 1997; Bates, 1990). For example, Barringer et al. (2005) found a strong statistical relationship between the rapid growth of business and college education; although no statistically significant relationship was found between growth and those with Masters or PhD qualifications. It would be generally expected that those entrepreneurs with high levels of education encountered fewer problems than those with lower levels of education.

The education of the entrepreneurs was categorised according to their highest qualification into one of four groups: (i) postgraduate, professional qualifications, degrees or GCE 'A' levels, where the later are the qualifications which determines entry to universities in Ghana and the UK, and are equivalent to high school graduation in the US; (ii) technical, vocational and apprenticeships; (iii) GCE 'O' level which corresponds to those with an education up to 16 years of age; and, (iv) junior school certificates, or no education. It is therefore expected that owner-managers with higher level of education are less likely to be positively associated with barriers to growth factors.

6.3.13 Location

In the UK various studies have found that small businesses which were located in more 'accessible' rural areas performed better than their counterparts in the urban areas (Storey, 1994; Keeble, 2003). However, similar studies undertaken in some countries in East Africa on urban micro and small businesses revealed evidence to the contrary (Liedholm, 2002). Thus, the role of location of the business and its impact on the performance of businesses has divided researchers. In this study the location of the businesses has been related to three classifications, conurbations (Accra, Tema and the surrounding area), large towns (settlements with populations of 150,000 to 1,500,000), and small towns (settlements with populations of less than 150,000). 55.4% of the respondents were from conurbations, 21.6% from large towns, and 23.0% from small towns. There are virtually no businesses with 5 or more employees in the small towns. The definition of the settlements was adapted from the work of Keeble (2003) which also examined the performance and growth of small businesses by location. The closeness between firms and their customers can provide impetus for development due to the ease with which the firms can identify customer needs. Thus, it is expected that those firms in conurbations encounter fewer barriers than other types of locations.

6.4 Assessment of the business obstacles in rank order

This section presents an overview of the business obstacles perceived by the entrepreneurs as being an important or a crucial limitation to their ability to meet their business objectives in the last three years. Table 6.1 presents the mean score and also the percentage of the respondents who gave each of the four responses, and the later is also shown in Figure 6.1. However, for greater ease of interpretation of the results it was felt advantageous to combine the important and the crucial limitations categories and these are shown in Table 6.2 and Figure 6.2. Thus, Figure 6.2 presents a pictorial view of the responses from the owner-managers, ranking the factors from the greatest to the least important in limiting their ability to meet their business objectives in the last three years.

From Figure 6.2, it could be observed that 71.5% of the respondents identified a high rate of inflation as an important or a crucial factor limiting their ability to achieve their business objectives, and this was ranked first, in order of importance. This result confirmed the findings of a study undertaken by Wolf (2004:17) that involved a survey of 100 businesses in selected regions of Ghana (Greater Accra Region and the Northern Region). Wolf's (2004:17) study used a 6 point scale and found that 43% of the respondents mentioned a high rate of inflation as having an extremely or a very problematic effect on their business performance. Moreover, 30% identified a high rate of inflation as quite problematic (Wolf, 2004).

Although it has been the Ghanaian governments' policy to reduce the rate of inflation to a single-digit level since the beginning of the Economic Recovery Programme (ERP) in 1983, this objective has been difficult to achieve in practice (Dordunoo and Nyarteng, 1997: 6). In 1992, the government came close to achieving that objective when the rate of inflation declined from 40% in 1983 to 10.1% (Aryeetey and Harrigan, 2000: 15). However, poor monetary policies in 1994 resulted in a sharp increase in the inflation rate to 60% in 1995 (Wolf, 2004: 5). Subsequently the rate of inflation has declined.

Indeed, information provided by the Bank of Ghana on year-on-year rates of inflation revealed that the rate of inflation had declined from 23.6% in December 2003 to 11.6% in January, 2005. However, in March, 2005, the rate of inflation had jumped to 16.7% which showed a 30% increase within the two months period. This substantial increase in the rate of inflation was largely attributable to a 50% increase in the prices of petroleum related products in February, 2005. The effect of the increase in the prices of petroleum related products on the prices of general goods could provide an explanation as to why the majority of the respondents in all the sectors of the economy mentioned a high rate of inflation as being the most important barrier to prevent businesses achieving their business objectives over the last three years.

The second factor identified by the majority of the respondents as having adverse effects on their ability to meet their businesses objectives was the high interest rates. Finance related problems were a source of worry for most business

Table 6.1 Limitations encountered by entrepreneurs in achieving their business objectives over the last three years, (% reporting not important to crucial limitation).

Factor	Mean	Not Important	Moderately important	Important	Crucial
Finance:					
Inadequate access to debt finance	2.15	43.0	15.2	25.5	16.3
Inadequate access to equity finance	1.59	69.0	11.0	11.6	8.4
Interest rates too high	2.98	22.8	8.7	16.5	52.0
Do not have collateral to secure bank loan	2.48	39.9	11.3	9.9	38.9
Difficult to meet loan criteria	2.52	36.6	13.1	12.5	37.8
Inadequate family finance	2.12	44.4	18.4	17.8	19.4
Market:					
Inadequate demand	2.06	37.6	30.8	20.0	11.6
Too many competing firms	2.45	26.3	24.4	27.5	21.8
Competition from imported goods	1.83	61.5	10.0	11.9	16.6
High advertising costs	2.19	43.2	13.7	24.2	18.9
Inadequate market research	1.83	51.4	21.3	20.3	7.0
Managerial/ Technical:					
Shortage of skilled labour	2.00	49.6	16.4	18.8	15.2
High wages for skilled labour	2.48	26.4	25.3	22.0	26.3
Access to new technology	2.29	39.1	15.2	23.8	21.9
Inadequate financial skills	1.88	52.9	17.6	17.6	11.9
Inadequate management skills	1.88	48.0	25.7	16.3	10.0
Inadequate marketing skills	1.94	47.4	21.2	21.6	9.8
Inadequate technical skills	1.77	55.2	21.3	14.9	8.6
N	489				

Table 6.1: Limitations encountered by entrepreneurs in achieving their business objectives over the last three years, (% reporting not important to crucial limitation).

Factor	Mean	Not Important	Moderately important	Important	Crucial
Inputs:					
High cost of local raw materials	2.50	34.8	13.5	19.0	32.7
High cost of imported raw materials	2.24	45.8	11.7	15.7	26.8
Inadequate supply of raw materials	1.81	54.1	20.3	16.2	9.4
Outmoded equipment	2.11	45.3	16.6	20.5	17.6
High cost of replacing old equipment	2.50	35.4	12.3	19.8	32.5
Difficulty in finding appropriate equipment	1.90	54.9	15.7	13.7	15.7
Poor quality of local raw materials	1.70	60.4	16.4	16.0	7.2
Poor quality of imported raw materials	1.43	74.8	11.5	9.6	4.1
Economic/Regulatory:					
High rate of inflation	2.95	13.1	15.5	35.2	36.2
High depreciation of the cedi	2.77	16.7	19.8	33.5	30.0
High tax and import duties	2.59	18.6	30.9	23.9	26.6
Registration / Licensing / Red tape	1.83	46.6	34.6	8.6	10.2
Corruption	1.82	47.7	32.0	11.3	9.0
Infrastructure:					
High cost of utility charges	2.71	18.6	22.9	27.0	31.5
Lack of industrial sites	2.01	49.0	15.9	20.2	14.9
High transport costs	2.61	19.3	22.7	35.7	22.3
Low quality of electricity / water supply	2.16	34.5	29.8	21.0	14.7
Poor telecommunication networks	1.82	48.7	30.0	12.3	9.0
Socio-cultural:					
Use of business resources to support family	2.23	37.7	19.5	24.8	18.0
N	489				
Others:	2.37	38.7	18.4	10.2	32.7
N	49				

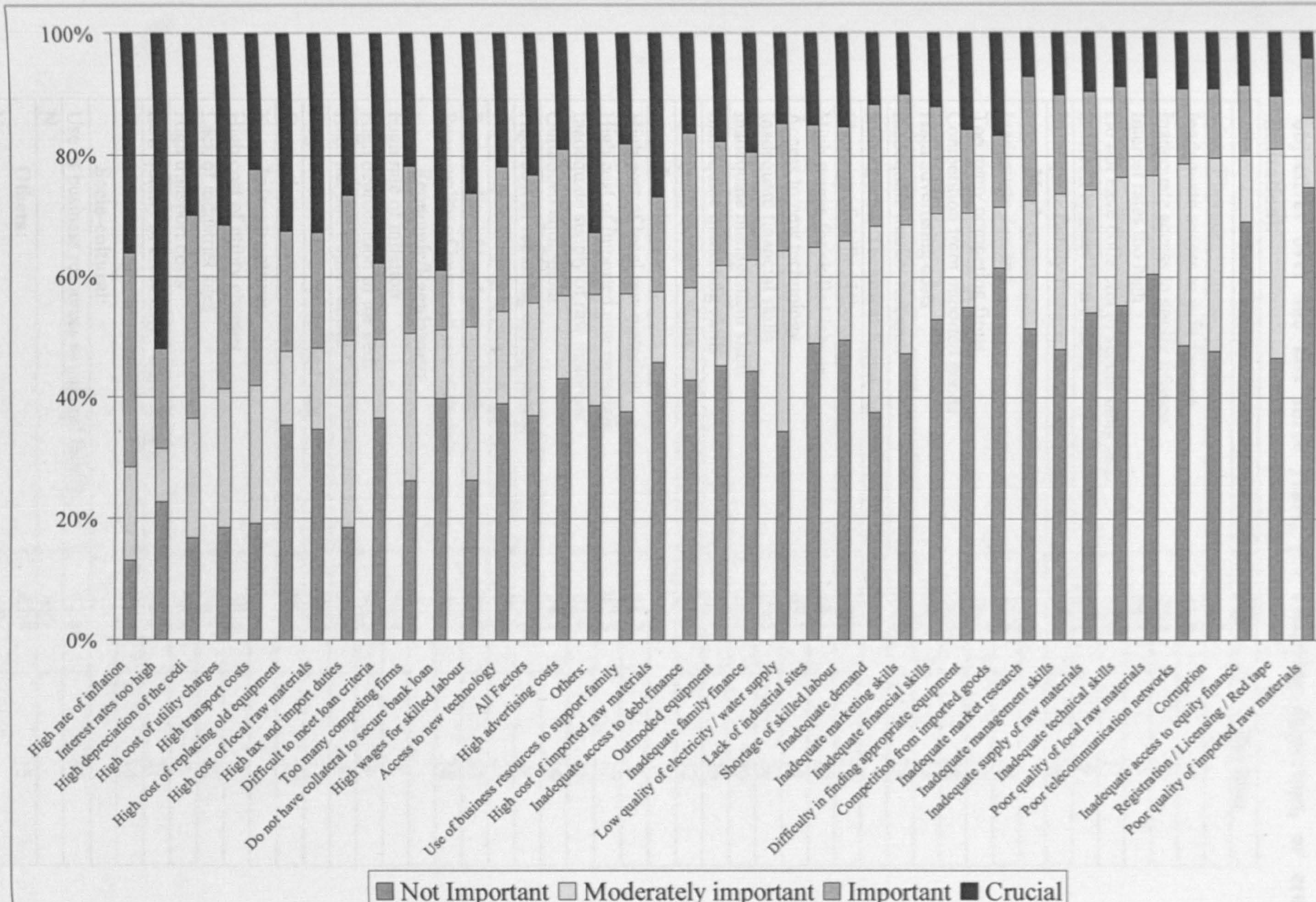


Figure 6.1 Factors Limiting the Entrepreneurs' Ability to Meet their Business Objectives

Table 6.2: Limitations encountered by entrepreneurs in achieving their business objectives over the last three years, (% reporting important, or crucial limitation).

Factor	All	Ranking
Finance:		
Inadequate access to debt finance	41.8	18
Inadequate access to equity finance	20.0	36
Interest rates too high	68.5	2
Do not have collateral to secure bank loan	48.8	11
Difficult to meet loan criteria	50.3	9
Inadequate family finance	37.2	20
Market:		
Inadequate demand	31.6	24
Too many competing firms	49.3	10
Competition from imported goods	28.5	28
High advertising costs	43.1	14
Inadequate market research	27.3	29
Managerial/ Technical Know-how:		
Shortage of skilled labour	34.0	23
High wages for skilled labour	48.3	12
Access to new technology	45.7	13
Inadequate financial skills	29.5	26
Inadequate management skills	26.3	30
Inadequate marketing skills	31.4	25
Inadequate technical skills	23.5	32
Inputs:		
High cost of local raw materials	51.7	7
High cost of imported raw materials	42.5	17
Inadequate supply of raw materials	25.6	31
Outmoded equipment	38.1	19
High cost of replacing old equipment	52.3	6
Difficulty in finding appropriate equipment	29.4	27
Poor quality of local raw materials	23.2	33
Poor quality of imported raw materials	13.7	38
Economic/Regulatory:		
High rate of inflation	71.4	1
High depreciation of the cedi	63.5	3
High tax and import duties	50.5	8
Registration / Licensing / Red tape	18.8	37
Corruption	20.3	35
Infrastructure:		
High cost of utility charges	58.5	4
Lack of industrial sites	35.1	22
High transport costs	58.0	5
Low quality of electricity / water supply	35.7	21
Poor telecommunication networks	21.3	34
Socio-cultural:		
Use of business resources to support family	42.8	16
N	489	
Others:	42.9	15
N	49	

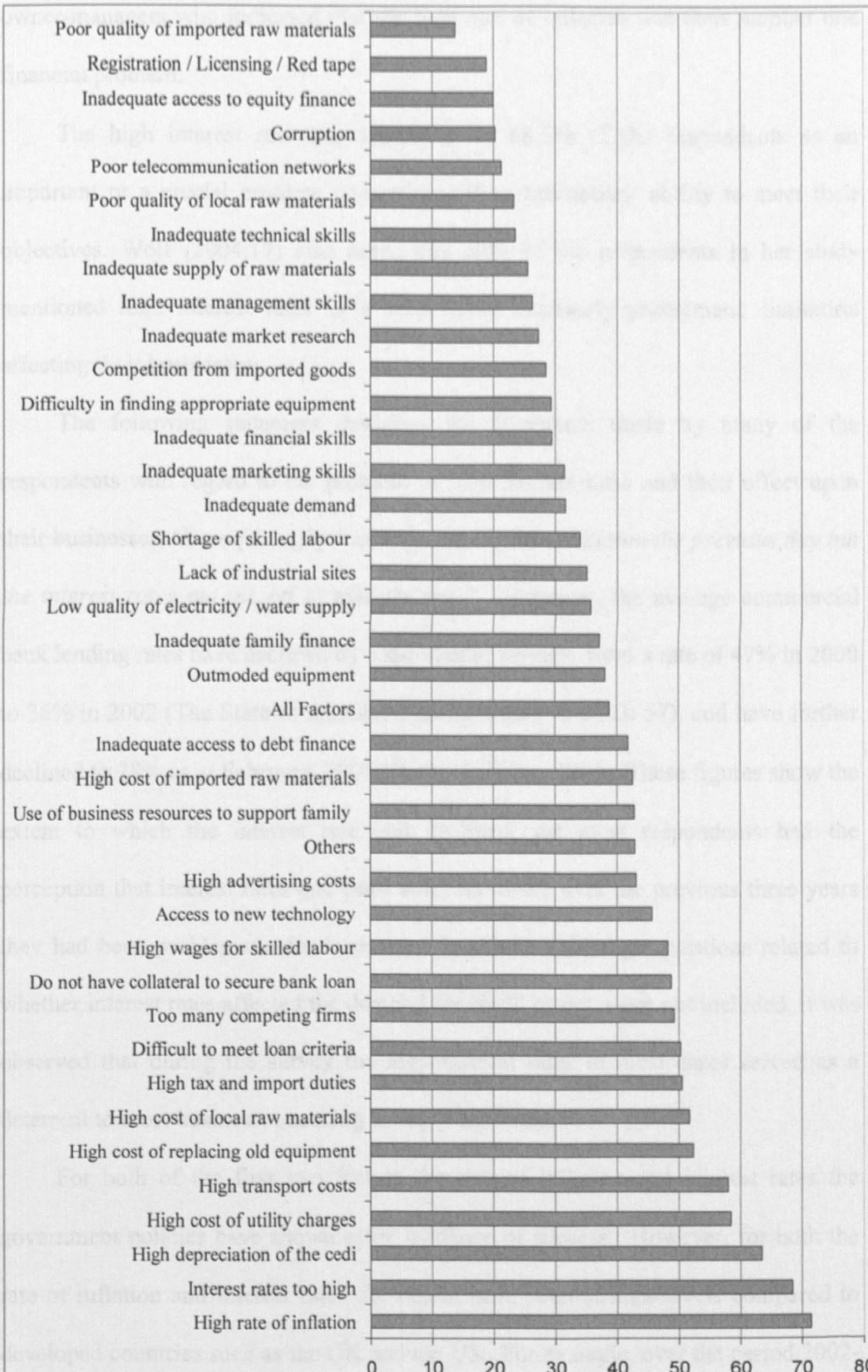


Figure 6.2: Factors Limiting the Entrepreneurs' Ability to Meet their Business Objectives (Percentage of Respondents Reporting Crucial or Very Important)

owner-managers who indicated that the high rate of inflation was their number one financial problem.

The high interest rate was identified by 68.5% of the respondents as an important or a crucial problem constraining their businesses' ability to meet their objectives. Wolf (2004:17) also noted that 62% of the respondents in her study mentioned high interest rates as a very or an extremely problematic limitation affecting their businesses.

The following statement describes the comments made by many of the respondents with regard to the problem of high interest rates and their effect upon their businesses, '*Even [though] I went to a financial institution the previous day but the interest rates put me off to take the loan'*. However, the average commercial bank lending rates have declined by a substantial amount from a rate of 47% in 2000 to 36% in 2002 (The State of the Ghanaian Economy in 2003: 57), and have further declined to 28% as at February, 2005 (Bank of Ghana, 2005). These figures show the extent to which the interest rate had declined, yet most respondents had the perception that interest rates had been at levels where over the previous three years they had been problematic for businesses in Ghana. Although questions related to whether interest rates affected the demand for credit or not, were not included, it was observed that during the survey the high interest rates in most cases served as a deterrent to most businesses seeking to apply for loans.

For both of the first two factors the rate of inflation and interest rates the government policies have shown some evidence of success. However, for both the rate of inflation and interest rates the values have been at high levels compared to developed countries such as the UK and the US. For example, over the period 2002-2005 the rate of inflation has been 1.3 - 2.1% in the UK and 1.6 - 3.5% in US. For the same time period bank base rates have been 4 - 4.3% in the UK and 1.7 - 3.6% in the US (Bank of England, 2006).

A high depreciation rate is the third factor in order of ranking and was mentioned by 63.5% of the respondents as an important or a crucial limitation to achieving business objectives. In the last 5 years the Cedi – the currency of Ghana, has been more stable than in the 1980s and the 1990s against the major international currencies such as the US Dollar, the Pound Sterling, and the Euro. According to the State of the Ghanaian Economy in 2002, the annual cumulative depreciation of the Cedi against the major international currencies was 14.5% against the US$, 23.0% against the Pound Sterling, and 28.3% against the Euro. This contrasts with the average depreciation of the Cedi against these major international currencies by 49.6% in 2000 (The State of the Ghanaian Economy in 2000, 2001: 11). The Governor of the Bank of Ghana in a speech titled 'The Monetary Policy Setting in Ghana – Issues and Prospects' at the ISSER-Merchant Bank Annual Lecture in June 2005 pointed out that 'in 2004 the average depreciation of the Cedi against a basket of international major currencies was 2.2% which was the lowest level of depreciation since 1983'. Thus, although there has been a steady stabilisation of the Cedi against the major international currencies, the high rate of depreciation of the Cedi in the recent past, particularly three years ago, has had an adverse effect upon businesses in Ghana.

The next group of factors are those which were mentioned by between 50-60% of the respondents. These factors included the high cost of utility charges, high transport costs, the high cost of replacing old equipment, the high cost of local raw material, the high tax and import duties, and the difficulty to meet loan criteria.

The high costs of utility charges were mentioned by 58.5% of the respondents. This figure is in line with Wolf's results (2004: 18) where she observed that the share of the costs of water and electricity increased significantly in relation to the costs of other inputs between 2000 and 2002. For example, for electricity the study observed that the costs of electricity in relation to other inputs went up by more than 58%. However, the plastics, rubber and aluminium industries experienced the highest increase in the cost of electricity. With regard to the cost of water, businesses in the agricultural processing sector experienced the highest increase, according to Wolf (2004:18). The high costs of utility services have affected the competitiveness of the Ghanaian businesses on the international market, hence, their poor performance (Aryeetey et al., 1994; Rankin et al., 2002).

The high cost of transport is a factor which was mentioned by 58% of the respondents as limiting their ability to meet their business objectives. Poor road networks (especially in the rural areas) and the high cost of fuel continued to exert substantial pressure on the transportation costs of most businesses. The collapse of the Ghana Airways Company in 2004 has also compounded the transport costs of most respondents whose business operations involved international travels or exporting products (Ghanaweb Business News, 2004). The delays at the port are another area of major concern to most respondents and this was observed during the fieldwork. At the moment, it takes an average of three to five days to clear goods at the Tema port. The virtual collapse of the railway system has also exacerbated the transport situation especially in the rural areas. The high cost of transport as perceived by the respondents could therefore be explained by the above problems which have been encountered in Ghana in the last three years.

The next factors identified by the respondents in rank order were the high cost of replacing old equipment and the high cost of local raw materials, which were identified by 53.2% and 51.7%, respectively of the respondents. The high rate of inflation, the high interest rates and the high depreciation rate of the Cedi could be assumed to be responsible for the high cost of replacing the old equipment.

In addition to the unfavourable economic environment with its negative effect on the cost of inputs as discussed, 50.5% of the respondents also mentioned high tax and import duties as an important and a crucial limitation in achieving their business objectives. The Golden Age of Business which became the slogan for the ruling New Patriotic Party government at the time it assumed office in January, 2001 was never reflected in their policies, especially their fiscal policies (The State of the Ghanaian Economy in 2001, 2002; Wolf, 2004).

Although in 2001 the government reduced the rate of corporate tax from 35% to 30% for those companies listed on the Ghana Stock Exchange and to 32.5% for those companies not listed on the stock market, this was more than offset by the government having increased the with-holding tax from 5% to 7.5% (The State of the Ghanaian Economy, 2001). Another tax called the National Reconstruction Levy was introduced in the 2001 budget. This new tax was imposed on banks, pension funds, and insurance companies at the rate of 10% of their gross profit after making provision for bad and doubtful debts. Other companies which did not fall under this category were required to pay 7.5% of their gross profit (The State of the Ghanaian Economy, 2001). The national reconstruction levies introduced by the government worsened the financial situation of most businesses. The impact of the taxes and the duties on businesses in Ghana was summed-up by one respondent as, *'Why should a small business owner-manager be asked to pay VAT on imported raw materials* *before they even start production and expect the small businesses to flourish and encourage others to invest'.*

50.3% of the respondents mentioned the difficulty involved in meeting commercial banks' lending requirements. Poor record keeping, poor understanding of financial management, and also a lack of understanding of the operations of small business by commercial lending institutions have meant that most of the applications for loans submitted by small businesses to formal financial institutions are disqualified (Aryeetey et al, 1994 and Amonoo et al, 2003).

Having looked at the limitations which were identified by 50% or more of the respondents, attention is now focussed upon the other important or crucial limitations which were identified by less than 50% of the respondents. There were 28 limitations which the respondents identified in this group of factors ranging from too many competing firms which were mentioned by 49.3%, to the poor quality of imported raw materials which was mentioned by 13.7% of the respondents as shown on figure 6.1. The remainder of this section examines some of the factors in this group whilst the rest of the limitations will be analysed in section four.

Although a lack of demand has been identified by previous studies such as Mead and Liedholm (1998) and Steel and Webster (1992) as a limiting factor in the growth of small businesses in most developing countries, in this particular survey, inadequate demand was identified by 31.6% of the respondents as an important and a crucial limitation. However, studies by Wolf (2004:17) and Sowa et al. (1992) revealed results which were similar to this study.

Another market related barrier which received approximately one half of the responses was the problem of 'too many competing firms' as an important and a crucial problem to attaining business objectives. Verspreet and Berlage (1999: 22) study's in Tanzania found similar results. Their study found that in Tanzania most small businesses operated in saturated local markets where there was intense competition. Liedholm and Mead (1998) also found similar results in a study undertaken in three East African countries -Tanzania, Kenya, and Zimbabwe.

47% of the respondents found that the lack of collateral to secure bank loans was a substantial barrier to meeting their business objectives. This is another financial related problem and reveals the frustrations with which small businesses encountered when trying to access institutional credit. In Ghana the severe difficulty involved in securing the title deeds to landed properties has rendered most land owners with no title deeds to their properties (Aryeetey et al., 1994). Moreover, untitled properties can not be used to secure a bank loan in Ghana. The following statement which was made by one of the respondents summed the problem of collateral faced by small businesses, *'I have a guest house to complete but [because of a] lack of collateral I could not secure the bank loan'.*

Furthermore, a lack of access to finance might affect small businesses which intend to recruit qualified personnel. This was supported by the evidence in the survey data where high wages for skilled labour and a lack of access to new technology were mentioned by 48.3% and 47.5% of the respondents, respectively.

The use of business resources to support family members was identified by 42% of respondents as limiting their ability to meet their business objectives. This particular factor needs special attention because most small businesses in Africa which have collapsed or failed to grow has been due to the use of business resources to support social causes (Takyi-Asiedu, 1993; Kiggundu, 2002). For instance, Kiggundu (2002: 242) noted that although the African social set-up has a positive impact in the development of small business in terms of the high social status that owner-managers enjoyed, the overall impact has been negative. Buame (1996: 166) found in Ghana that entrepreneurs often had to relocate their businesses away from their hometowns because of the fear of the businesses becoming encumbered with family members.

To the author's knowledge there has not been any comprehensive quantitative survey undertaken to determine the extent to which this particular problem affects small business in Ghana. In most cases, the research approach to investigating this problem has been centred on a qualitative paradigm (Buame, 1996; Takyi-Asiedu, 1993). For instance, Buame (1996) used a case study approach to investigate how the environment impacts on entrepreneurial activities in Ghana.

Furthermore, inadequate marketing, inadequate financial skills and inadequate management skills were mentioned by 31.4%, 29.5% and 26.3% respectively of the respondents. There have been various studies (Kiggundu, 2002; Trulsson, 2002; and Aryeetey et al., 1994) which have argued that most owner-managers of small business in Africa lacked the aforementioned skills but that the owner-managers had played down their management deficiencies and blamed other factors such as finance as the main obstacle to their businesses' growth. For instance, Trulsson (2002: 336) found in East Africa that most businesses lacked financial management skills rather than the inadequate finance perceived by their owner-managers. Kasekende (2001: 97) also observed that in Uganda most small and medium businesses lacked credit worthiness and management capacity that could enable them to secure credit from the financial institutions.

Lastly, the factors inadequate access to debt finance, inadequate access to family finance, lack of industrial sites, shortage of skilled labour, inadequate technical skills, corruption, and poor quality of imported raw materials were identified by less than 40% of the respondents. These factors will be examined in more detail in the next section of the chapter.

Most owner-managers expressed their joy when the New Patriotic Party declared the slogan 'the golden age of business' on the assumption of office in January, 2001, but after the end of the first term in office, most owner-managers felt that the policies of the government and the behaviour of some government officials had rather worsened their plight. Some of the problems mentioned included the award of government contracts to party officials. The following statements were some of the comments made by the owner-managers to describe the situation, '*For political reasons some of us are not getting jobs, our workshops are collapsing and I think it is happening to other businesses too'*. Thus, in Ghana it appeared that some businesses thrived not because of superior entrepreneurial skills of the owner-manager but rather due to the owner-managers' links with the party in power as narrated by one respondent. *'My friend even some people who do not have even workshops to make the school desks are awarded the contract by the district assemblies because they know the district Chief Executive or they are the party faithful. They will then subcontract the job to us at a higher price'*.

In Ghana, people join political parties not because of a particular ideology or principle but rather because of what they will gain from the party. One businessman summed this up in the local dialect as '*me nua lorry a[elodu] na yefro na enye nea egyinaho'* which translates as: my brother, a bus which is ready to take off is the one that we board but not the one which has parked. What the businessman meant was that it is the party in power that people have to join if they want their business to grow, and not join the one which is in opposition. This observation is not different from other studies. Takyi-Asiedu (1993: 95) in a study of socio-cultural factors retarding entrepreneurial activity in Sub-Saharan Africa observed that 'in most parts of the sub-region, tribal *or political* loyalty surpasses any allegiance to the nation. There is a conviction that to give a job to fellow tribesman (not on merit but as right) is not nepotism, it is an obligation'. The subsequence sections of the chapter take the analysis a step further by using multiple regression analysis. More specifically, an ordered logit model is used to estimate the limitations encountered by the owner managers in achieving their business objectives over the last three years against the characteristics of the business and the owner-manager. The regression Tables 6.3 - 6.8 report the coefficients, and the standard errors are shown in parentheses. Those variables which were found to be statistically significant are shown in bold in the tables for the convenience of the reader.

After examining 37 barriers to growth factors a descriptive statistics results revealed high rate of inflation, high interest rates, and high depreciation of the Cedi as the three most crucial barriers that prevent small businesses from achieving their objectives while barriers such as corruption, registration, licensing and red tapes were the least mentioned problems although the later findings revealed that businesses located in the conurbation were the most affected according to the regression test results. Other barriers such as high cost of utility, high tax and import duty, financial, market and managerial related problems which fell in between the two extremes as reported in Figure 6.2. Furthermore, qualitative data gathered also revealed that political related factors had an appreciable influence on small business growth in Ghana.

6.4.1 Business Characteristics - Family

The results showed that family business was statistically significant in 19 of the models and was the factor which was most related to barriers and limitations (See Tables 6.3-6.8). More specifically family businesses were more likely than non-family businesses to encounter barriers to achieving their objectives. With regard to four out of the six financial factors, shown in Table 6.3, family businesses were more constrained than non-family businesses. These results are consistent with Kets de Vries's research (1996), where it was found that raising long-term capital is more difficult for family businesses than non-family businesses.

In the models of inadequate demand, too many competing firms, and inadequate market research family businesses were more likely than non-family businesses to encounter barriers and limitations. Focusing on the managerial and technical limitations, all seven models showed that family businesses were more likely than non-family businesses to encounter these barriers (See Table 6.5). Organisation and technical issues are some of the problems associated with family business as observed by Kets de Vries (1996).

Family businesses were more likely than non-family businesses to encounter barriers related to outmoded equipment, the high cost of replacing old equipment, and the difficulty in finding appropriate equipment. With regard to the economic and regulatory limitations the results showed no statistically significant relationship with family businesses. In examining the infrastructure factors and socio-cultural factors against family and non-family businesses shown in Table 6.9, the data revealed that high transport costs and the use of business resources to support family were the only statistically significant results. The results are consistent with previous researchers who have established links between the African extended family system and the performance of small business (Buame, 1996; Mambula, 2004); and the results are consistent with the hypothesis articulated in 6.3.

6.4.2 Innovation

In the models of managerial and technical barriers shown in Table 6.5 innovation appeared with negatively signed coefficients and was statistically significant at the 5% level or better for all of the factors with the exception of access to new technology and inadequate financial skills, which were not statistically significant. In other words, non-innovators were more likely than innovators to encounter managerial and technical barriers. Perhaps it was the case that the innovators had in place a more skilled set of employees and entrepreneurs who had a better set and quality of business skills.

Innovators were more likely than non-innovators to encounter the barrier, the high cost of utility charges, and the low quality of electricity and water supply, which were both infrastructure barriers shown in Table 6.8; and more likely to encounter registration/licensing and red tape.

6.4.3 Size

The results show that there are mixed relationships between firm size and the likelihood of encountering barriers. Larger firms were more likely to encounter inadequate access to debt finance but less likely to have no collateral to secure bank loans.

Smaller sized firms were also more likely than larger sized firms to encounter inadequate demand, the high cost of local raw materials, the high cost of utility charges, high transport costs and the use of business resources to support family.

These results support the earlier finding of Mead and Liedholm (1998) who reported that micro firms experienced higher closure rates than the small and medium firms due to a lack of demand and the shortage of working capital.

There was a positive relationship between the size of the business and business barriers for: outmoded equipment, and the high cost of replacing old equipment. Thus, the larger firms were more likely than younger firms to be burdened with outmoded equipment and difficulties in finding the money to replace the equipment. The younger firms would have equipment which had a higher probability of being of a newer vintage, and a more up-to-date specification than older firms.

6.4.4 Growth

The models show in general that growth is positively related to the likelihood of businesses encountering barriers and limitations. Inputs related factors which are shown in Table 6.6 were the models which showed the strongest relationship with growth. More specifically the greater the level of growth the more likely that businesses encounter barriers with regard to: the high cost of local raw materials, the high cost of imported raw materials, the difficulty in finding appropriate equipment, and the poor quality of local raw materials. Bartlett and Bukvic (2001) also asserted that fast growth businesses experienced the worst problems when compared with businesses with lower rates of growth.

In addition faster growth businesses were more likely to have no collateral to secure bank loans, and the difficulty to meet loan criteria; and, the less likely to have inadequate access to equity finance. These results can be explained by the faster the growth of the business the more difficult it is for the entrepreneur to meet loan requirements due to the commercial lenders perceiving the business proposals from the entrepreneur as risky, and demanding adequate collateral which entrepreneurs would have difficulty fulfilling.

In Ghana it is extremely difficult for the small business owner-manager to secure equity loans from the stock market, but clearly growing firms represent an attractive set of prospects for those willing to make equity loans. Even in the UK, Barkham et al. (1996) and Jarvis (2000) noted that external equity is available to a small number of small businesses which had shown substantial growth.

Growing firms were also more likely to have difficulties with registration, licensing and red tape. This result supports other studies which have found strong associations between institutional bureaucracy and the growth of small businesses in developing countries (Bartlett and Bukvic, 2001; Mead and Liedholm, 1998; Buame, 1996).

The faster the rate of growth the more likely that a firm would encounter infrastructure barriers which are shown in Table 6.8 and this was statistically significant for, the high cost of utility charges, lack of industrial sites, and high transport costs. Poor infrastructure in Africa has been described by Reinikka and Svensson (1999) and ECA (2004) as the bane of the continent's industrial development. According to ECA (2004: 122) 'the low competitiveness of African products in the global markets can be attributed in part to the continent's inadequate infrastructure development'. In Ghana the story is not different from other African countries, although in recent years the infrastructure has improved markedly compared to the 1980s and the 1990s (ECA, 2004).

Growing firms were more likely to have the problem of the use of business resources to support families. This finding is consistent with the previous research of Buame (1996), Takyi-Asiedu (1992), and Kiggundu (2002) although none of these studies utilised regression techniques. The communal nature of African society and the nature of inheritance of some tribes mean that if a person becomes successful in the family he has the social obligation to cater for the other siblings who are not successful in life. Buame (1996: 197) noted that '[n]o Ghanaian can easily do away with his or her relatives. Our traditional life is centred on kinship, I mean our relatives'.

6.4.5 Training

The results show that firms which engaged in training were more likely than the firms that did not undertake training to encounter barriers and limitations. With regard to the financial limitations which are shown in Table 6.3 the results show that firms pursuing training were more likely than other firms to find that there was inadequate family finance, and that interest rates were too high.

Interestingly training activity showed no statistically significant relationships with the managerial and technical factors. This could be explained by most of the firms which undertook training focussing resources upon those workers who worked on the shop floor, rather than people in managerial positions.

Analysis of the inputs factors which are shown in Table 6.6 indicated that the high costs of local raw materials, the high cost of imported raw materials, and the high cost of replacing old equipment were all limitations which were more likely to be found in firms investing in training compared to those businesses not investing in training.

6.4.6 Sector

The agricultural sector was the excluded comparison category in the models. Service sector firms were less likely than agricultural firms to encounter financial and also inputs barriers and limitations. Indeed five financial limitations were statistically significant at the 5% level or better: inadequate access to debt finance, interest rates too high, no collateral to secure bank loans, the difficulty to meet loan criteria, and inadequate family finance. In four inputs models sector was statistically significant at the 1% level and they were: the high cost of local raw materials, the high cost of imported raw materials, inadequate supply of raw materials, and the poor quality of local raw materials.

In contrast, service sector firms were much more likely than agricultural businesses to have infrastructure barriers; and in four models there were statistically significant relationships: the high cost of utility charges, a lack of industrial sites, the low quality of electricity and water supply, and poor telecommunication networks. Service sector businesses were also more likely than agricultural businesses to have high tax and import duties, and this is explained by the service sector businesses more likely to have goods for sale which were imported.

Analysis of the manufacturing variables showed that they were less likely than agricultural firms to encounter barriers but that the relationships were not systematically significant. Thus in Ghana it appears that the main differences in the barriers which firms encounter are in the services sector and not in the manufacturing sector, compared to the agricultural sector.

6.4.7 Exporting

Exporting activity was only statistically significant in four of the models, one relating to market factors which is shown in Table 6.4, inadequate demand; and three models which were of input factors - the high cost of imported raw materials, inadequate supply of raw materials, and the poor quality of imported raw materials. Thus, the model results are not consistent with the hypothesis in 6.3.

6.4.8 R&D

The results show that in general those firms which undertook R&D were less likely to encounter barriers than those who did not spend money on R&D, and in particular were less likely to encounter most of the managerial and technical and inputs factors. The market related models where R&D was statistically significant were too many competing firms and competition from imported goods.

6.4.9 Owner-manager Characteristics - Age

There were very few instances where the age of the owner-managers was statistically significant and related to the barriers. Older owner-managers were more likely to encounter the barriers inadequate access to debt finance, the high cost of utility charges, and poor telecommunication networks; younger owner-managers were more likely to encounter competition from imported goods, the high cost of imported raw materials, poor quality of local raw materials, and the high depreciation of the cedi. Some studies have attributed the difference in the effect of the limitations as a lack of experience on the part of the young aged entrepreneurs and owner-managers (Brooksbank, 2000; Barringer et al., 2005).

6.4.10 Sex

Men were more likely than women to encounter the barrier of high cost of replacing old equipment, and the difficulty in finding appropriate equipment; and women were more likely than men to encounter inadequate family finance, and the low quality of electricity or water supply. The results support Storey's (1994) assertion that the gender of the owner-manager or an entrepreneur is not a key influence upon the subsequent business performance, although Abor and Biekpe (2006b) found in Ghana that women were at a disadvantage in terms of debt financing. In other words, women generally do not encounter more or less barriers than men in business, once they are in business; but only 13.4% of the respondents were women compared to 86.6% of men, which suggests that women encounter barriers which prevent them from becoming owner-managers.

6.4.11 Education

In the models the excluded comparison group was junior school certificates. There were very few relationships between secondary school certificates, or technical and vocational qualifications compared to junior school levels of education and the business barriers; only four models showed negatively signed statistically significant relationships. In contrast those owner-managers with levels of education associated with 'A' levels or higher, correspond to graduating from high school in the US, were much less likely to encounter barriers and limitations than those owner-managers who only had junior school certificates. This was particularly the case for financial and also inputs factors.

Owner-managers with 'A' levels or higher education were less likely than those entrepreneurs with junior school certificates to encounter the financial barriers of, no collateral to secure bank loans, the difficulty to meet loan criteria, and inadequate family finance. A similar pattern emerged for the following input related barriers: the high cost of local raw materials, outmoded equipment, the high cost of replacing old equipment, the difficulty in finding appropriate equipment and the poor quality of imported raw materials.

The model results confirm the analysis of the crosstabulations of education against the business barriers and that those entrepreneurs who have stayed on and achieved a formal level of education associated with an eighteen year old, or higher, are much less likely to encounter business problems than those with less formal education and qualifications.

6.4.12 Location

The results show that location plays an important part in explaining the likelihood of firms encountering barriers, and the types of barriers which are encountered. Firms in conurbations and large towns were more likely than firms in small towns to encounter no collateral to secure bank loans, the difficulty to meet loan criteria, too many competing firms, and competition from imported goods; and were less likely to encounter high advertising costs. These results confirmed Sowa et al.'s (1992) study in Ghana which found a strong association between the location of the business and increases in sales levels. According to Sowa et al. (1992) 60% of the respondents located in Accra and Kumasi reported that their sales had not increased during the Economic Recovery Programme (ERP) period. However, a study undertaken in the Dominican Republic and five countries in Eastern and Southern Africa (Botswana, Kenya, Malawi, Swaziland and Zimbabwe) revealed different results (Mead and Liedholm, 1998). More specifically, the Mead and

Liedholm (1998) study reported that location played an important role in determining the chances of survival of micro and small businesses, and that the businesses located in urban areas had a 25% greater chance of survival than the businesses in the rural areas.

Analysis of the models of the managerial and technical constraints showed that businesses in conurbations, compared to those in small towns were less likely to encounter barriers. A lack of external support services in the small towns may explain these results. This explanation is also supported by Barringer et al. (2005) work where they noted that businesses located in regions that facilitate the absorption of external knowledge were more likely to grow faster than their counterparts in other regions.

Firms in conurbations were more likely to have problems with the high cost of imported raw materials, and the poor quality of imported raw materials, but were also less likely to have difficulty with the high cost of local raw materials. Whilst firms in large towns were less likely than those in small towns to have problems with the high cost of local raw materials, and the poor quality of local raw materials. These results reflected the differing uses of imported materials within the regions.

The economic and regulatory models showed that those businesses located in conurbations were more likely than small towns to encounter barriers and this was statistically significant at the 5% level or better for the high tax and import duties, registration, licensing and red tape, and also corruption. Thus, the firms in the conurbations with their closer proximity to national and local government were more likely to encounter the stereotypical problems which are associated with Africa.

Similarly, firms in conurbations were more likely than those in small towns to have difficulty with the high cost of utility charges, a lack of industrial sites, and the low quality of electricity and water supply although these relationships were not statistically significant. Thus, firms in conurbations may benefit from the closer presence of a larger customer base but the high number of firms and the higher population result in problems and pressures associated with overcrowding – an infrastructure which is struggling to cope and may possibly in the future hinder the scope for development and growth.

6.5. Conclusion

This chapter has examined the problems which are encountered by firms in meeting their business objectives, and has found that the three greatest problems were the high rate of inflation (71.4%), interest rates being too high (68.5%), and the high depreciation rate of the Cedi (63.5%), where the figures in parentheses are the percentage of respondents who indicated that this was an important or a crucial problem. The study found that businesses which employed family members were more likely to face more problems than the non-family businesses. This particularly applied to financial related problems. These results are consistent with previous research in Africa which has shown the importance of the extended family, although in the case of Ghana there is a lack of empirical research by previous researchers.

The findings of the research also revealed that in general firms in conurbations were more likely to encounter barriers. The firms in conurbations show that the infrastructure in Ghana needs to be improved if future growth and development are not to be jeopardised. Size of the business and sector were both found to be strongly related to the likelihood of firms encountering barriers, but the nature of the relationships were mixed. The results also generally showed that growing businesses were more likely than other businesses to encounter barriers.

The study found that whether or not a business was an exporter business was not related to the encountering of business problems. However, in the case of innovation the results showed that non-innovators were more likely than innovators to encounter managerial and technical barriers. But, innovators were more likely than non-innovators to encounter the barrier, the high cost of utility charges, and the low quality of electricity and water supply, which were both infrastructure barriers.

When attention was focussed upon the characteristics of the entrepreneurs it was found that sex and age were generally not related to barriers in business. Instead it was education which was more important as a set of explanatory variables. Indeed it was those entrepreneurs who had the equivalent of US high school graduation, or higher, were less likely to encounter barriers.

The results serve to highlight to policy makers in Ghana the profiles of the types of firms and entrepreneurs who are, and are not likely to encounter barriers. Some of the factors have been the results of present and previous governments' macroeconomic policies. Whilst these policies by controlling inflation and providing exchange rate stability will create the right conditions for an entrepreneurial economy in Ghana they have clearly had a short term adverse impact on business. The findings do allow government to look at those factors where they can make a difference – improving the infrastructural framework in Ghana – particularly improving the quality of electricity and the water supply, the telecommunications network, and providing more industrial sites for business development. Interestingly, corruption and registration, licensing and red tape were amongst the least mentioned barriers, although firms in conurbations were more likely than firms in small towns to have these problems and suggest that there is still a need for the government to re-new effort to purge and eliminate corruption and minimise licensing and red tape.

Table 6.3: Estimates of an ordered logit model of the limitations encountered by owner-managers in achieving their business objectives over the last three years, by financial factors.

	Inadequate access to debt finance	Inadequate access to equity finance	Interest rates too high	No collateral to secure bank loan	Difficult to meet loan criteria	Inadequate family finance
Growth	-0.006 (0.004)	**-0.014 (0.005)[a]**	0.004 (0.005)	**0.013 (0.005)[a]**	**0.010 (0.005)[b]**	-0.006 (0.004)
Manufacturing	**-0.699 (0.235)[a]**	-0.403 (0.288)	-0.343 (0.279)	-0.415 (0.267)	-0.361 (0.263)	**-0.884 (0.253)[a]**
Services	**-0.812 (0.256)[a]**	-0.247 (0.291)	**-0.634 (0.281)[b]**	**-0.566 (0.271)[b]**	**-0.805 (0.267)[a]**	**-1.001 (0.258)[a]**
Size (Log)	**0.695 (0.260)[a]**	-0.110 (0.279)	0.300 (0.273)	**-0.773 (0.270)[a]**	-0.308 (0.260)	0.014 (0.263)
Exporter	-0.300 (0.231)	0.298 (0.253)	0.140 (0.236)	-0.183 (0.234)	-0.122 (0.227)	-0.209 (0.236)
Innovator	-0.153 (0.208)	-0.368 (0.246)	-0.196 (0.217)	-0.265 (0.215)	-0.346 (0.209)[c]	-0.090 (0.211)
R&D	-0.362 (0.237)	0.194 (0.252)	-0.205 (0.234)	-0.283 (0.236)	-0.218 (0.229)	0.103 (0.231)
Training	0.017 (0.195)	0.326 (0.229)	**0.403 (0.203)[b]**	0.053 (0.206)	-0.002 (0.201)	**0.555 (0.201)[a]**
Family Business	**0.407 (0.217)[c]**	0.229 (0.246)	**0.427 (0.213)[b]**	**0.989 (0.226)[a]**	**0.494 (0.217)[b]**	0.144 (0.219)
Gender	-0.007 (0.280)	0.431 (0.356)	-0.107 (0.291)	0.045 (0.287)	0.151 (0.282)	**-0.906 (0.287)[a]**
Age	**1.669 (0.881)[c]**	-0.157 (0.994)	1.144 (0.908)	-1.490 (0.929)	-0.523 (0.897)	0.241 (0.887)
Postgrad/ Prof/ Degree/ 'A' lvl	-0.264 (0.252)	0.079 (0.281)	-0.338 (0.251)	**-0.598 (0.261)[b]**	**-0.671 (0.253)[a]**	**-0.763 (0.260)[a]**
Technical/ Voc	-0.365(0.251)	-0.433 (0.297)	0.013 (0.269)	-0.106 (0.260)	-0.092 (0.256)	-0.365 (0.247)
'O' Levels	-0.188(0.277)	-0.141 (0.329)	-0.041 (0.290)	-0.291 (0.295)	-0.223 (0.285)	0.343 (0.277)
Conurbation	0.214 (0.232)	0.067 (0.270)	-0.160 (0.248)	**0.689 (0.242)[a]**	**0.685 (0.238)[a]**	-0.277 (0.229)
Large Town	0.211 (0.287)	0.063 (0.343)	0.096 (0.309)	**0.572 (0.302)[b]**	**0.781 (0.297)[a]**	-0.373 (0.282)
Log likelihood	-555.571	-416.820	-504.270	-494.975	-532.652	-543.054
Cut 1	2.638 (1.557)	1.124 (1.771)	0.477 (1.587)	-3.166 (1.621)	-1.729 (1.572)	-1.597 (1.563)
Cut 2	3.263 (1.558)	1.765 (1.773)	0.994 (1.588)	-2.641 (1.618)	-1.141 (1.571)	-0.750 (1.560)
Cut 3	4.697 (1.564)	2.798 (1.779)	1.753 (1.589)	-2.186 (1.617)	-0.555 (1.571)	0.272 (1.560)

N=443. For sector the excluded comparison group is agriculture; for education the excluded comparison group is Junior School Certificate (plus no education, 13 observations); for location the excluded comparison group is small towns.
[a] Significant at 1% level, [b] Significant at 5%, and [c] Significant at 10%.

Table 6.4: Estimates of an ordered logit model of the limitations encountered by owner-managers in achieving their business objectives over the last three years, by market related factors

	Inadequate demand	Too many competing firms	Competition from imported goods	High advertising costs	Inadequate market research
Growth	0.004 (0.004)	0.003 (0.004)	**0.016 (0.005)[a]**	**0.008 (0.005)[c]**	0.001 (0.005)
Manufacturing	-0.264 (0.256)	0.175 (0.251)	**-1.152 (0.281)[a]**	**0.454 (0.264)[c]**	-0.165 (0.257)
Services	-0.223 (0.260)	0.250 (0.255)	**-1.543 (0.295)[a]**	0.430 (0.268)	-0.287 (0.262)
Size (Log)	**-0.791 (0.261)[a]**	-0.334 (0.251)	-0.390 (0.287)	-0.322 (0.265)	0.181 (0.266)
Exporter	**0.502 (0.230)[b]**	-0.300 (0.220)	0.223 (0.255)	0.050 (0.230)	0.049 (0.233)
Innovator	**-0.387 (0.202)[c]**	0.299 (0.207)	0.319 (0.237)	-0.335 (0.211	-0.115 (0.215)
R&D	-0.286 (0.233)	**-0.876 (0.226)[a]**	**-0.626 (0.271)[b]**	0.177 (0.225)	-0.334 (0.234)
Training	0.212 (0.192)	-0.210 (0.191)	0.079 (0.222)	0.122 (0.195)	-0.141 (0.201)
Family Business	**0.402 (0.212)[c]**	**0.393 (0.208)[c]**	-0.446 (0.235)	0.217 (0.218)	**0.698 (0.231)[a]**
Gender	-0.376 (0.276)	0.379 (0.278)	0.106 (0.322)	-0.358 (0.267)	-0.005 (0.288)
Age	0.622 (0.879)	-1.857 (0.856)	**-0.454 (0.992)[b]**	-1.307 (0.895)	0.791 (0.905)
Postgrad/ Prof/ Degree/ 'A' Lvl	-0.053 (0.245)	**-0.564 (0.247)[b]**	**0.394 (0.281)[c]**	-0.259 (0.251)	-0.011 (0.261)
Technical/ Voc	0.053 (0.241)	**-0.409 (0.248)[c]**	**0.476 (0.284)[c]**	**0.428 (0.247)[c]**	**0.536 (0.255)[b]**
'O' Levels	-0.373 (0.280)	**-0.473 (0.263)[c]**	0.374 (0.307)	-0.063 (0.274)	-0.003 (0.288)
Conurbation	0.311 (0.224)	**0.584 (0.229)[b]**	**1.300 (0.301)[a]**	**-0.762 (0.233)[a]**	-0.382 (0.241)
Large Town	-0.264 (0.278)	**0.632 (0.279)[b]**	**0.982 (0.355)[a]**	**-0.799 (0.283)[a]**	-0.241 (0.295)
Log likelihood	-562.410	-589.608	-442.846	-552.237	-505.434
Cut 1	-0.511 (1.554)	-3.827 (1.513)	-0.402 (1.747)	-3.181 (1.571)	1.451 (1.601)
Cut 2	0.866 (1.554)	-2.593 (1.508)	0.138 (1.747)	-2.566 (1.568)	2.487 (1.606)
Cut 3	2.143 (1.559)	-1.247 (1.503)	0.887 (1.746)	-1.315 (1.565)	4.112 (1.612)

N=443.
[a] Significant at 1% level, [b] Significant at 5%, and [c] Significant at 10%.

Table 6.5: Estimates of an ordered logit model of the limitations encountered by owner-managers in achieving their business objectives over the last three years, by managerial and technical factors

	Shortage of skilled labour	High wages for skilled labour	Access to new technology	Inadequate financial skills	Inadequate management skills	Inadequate marketing skills	Inadequate technical skills
Growth	0.007 (0.004)	**0.011 (0.004)[a]**	0.006 (0.004)	0.005 (0.004)	-0.001 (0.005)	0.003 (0.004)	0.002 (0.005)
Manufacturing	-0.378 (0.259)	0.380 (0.255)	**0.533 (0.248)[b]**	0.001 (0.261)	-0.135 (0.259)	0.121 (0.261)	**-0.471 (0.260)[c]**
Services	-0.041 (0.260)	0.295 (0.259)	-0.164 (0.254)	-0.079 (0.264)	-0.418 (0.266)	-0.143 (0.264)	**-0.810 (0.268)[a]**
Size (Log)	0.238 (0.266)	0.151 (0.257)	0.182 (0.251)	-0.110 (0.267)	0.086 (0.269)	-0.024 (0.262)	0.159 (0.271)
Exporter	**-0.095 (0.242**	**0.154 (0.227)**	0.144 (0.224)	-0.109 (0.214)	0.142 (0.238)	0.384 (0.234)	0.210 (0.244)
Innovator	**-0.614 (0.212)[a]**	**-0.570 (0.203)[a]**	-0.024 (0.207)	-0.261 (0.214)	**-0.588 (0.209)[a]**	**-0.580 (0.210)[a]**	**-0.401 (0.216)[b]**
R&D	-0.271 (0.240)	**-0.576 (0.226)[a]**	**-0.646 (0.227)[a]**	**-0.548 (0.247)[b]**	**-0.513 (0.239)[b]**	**-0.705 (0.239)[a]**	**-0.701 (0.255)[a]**
Training	0.312 (0.202)	0.055 (0.192)	0.181 (0.194)	0.089 (0.200)	0.300 (0.201)	0.279 (0.198)	0.029 (0.205)
Family Business	**0.600 (0.225)[a]**	**0.907 (0.210)[a]**	**0.469 (0.219)[b]**	**0.749 (0.230)[a]**	**0.884 (0.230)[a]**	**0.944 (0.227)[a]**	**0.816 (0.240)[a]**
Gender	-0.344 (0.275)	-0.131 (0.277)	0.452 (0.283)	0.247 (0.303)	-0.206 (0.293)	0.160 (0.303)	0.093 (0.317)
Age	1.321 (0.926)	0.176 (0.875)	0.810 (0.880)	-0.461 (0.933)	0.182 (0.911)	0.889 (0.897)	-0.701 (0.959)
Postgrad/ Prof/ Degree/ 'A' Lvl	-0.035 (0.258)	**-0.436 (0.242)[c]**	**-0.447 (0.251)[c]**	-0.010 (.0257)	0.145 (0.259)	-0.023 (0.253)	0.228 (0.271)
Technical/ Voc	**0.472 (0.255)[c]**	0.109 (0.243)	-0.116 (0.246)	0.369 (0.259)	0.335 (0.252)	0.010 (0.254)	0.410 (0.263)
'O' Levels	0.377 (0.281)	-0.204 (0.274)	0.034 (0.279)	0.170 (0.283)	-0.041 (0.284)	-0.330 (0.285)	0.288 (0.296)
Conurbation	**-0.813 (0.238)[a]**	-0.342 (0.234)	-0.349 (0.233)	**-0.683 (0.245)[a]**	**-0.933 (0.241)[a]**	**-0.769 (0.244)[a]**	**-0.761 (0.250)[a]**
Large Town	-0.253 (0.288)	-0.137 (0.288)	0.269 (0.288)	**-0.542 (0.300)[c]**	**-0.513 (0.291)[c]**	**-0.700 (0.296)[b]**	-0.054 (0.301)
Log likelihood	-520.049	-575.667	-562.883	-509.817	-505.804	-520.562	-475.062
Cut 1	1.668 (1.624)	-0.668 (1.538)	1.593 (1.546)	-0.672 (1.644)	-0.315 (1.601)	1.097 (1.584)	-1.217 (1.684)
Cut 2	2.446 (1.626)	0.597 (1.538)	2.276 (1.548)	0.173 (1.644)	0.946 (1.601)	2.118 (1.587)	-0.064 (1.683)
Cut 3	3.636 (1.631)	1.666 (1.539)	3.524 (1.552)	1.403 (1.648)	2.258 (1.605)	3.793 (1.593)	1.177 (1.685)

N=443.

[a] Significant at 1% level, [b] Significant at 5%, and [c] Significant at 10%.

Table 6.6: Estimates of an ordered logit model of the limitations encountered by owner-managers in achieving their business objectives over the last three years, by inputs related factors

	High cost of local raw materials	High cost of imported raw materials	Inadequate supply of raw materials	Outmoded equipment	High cost of replacing old equipment	Difficulty in finding appropriate equipment	Poor quality of local raw materials	Poor quality of imported raw materials
Growth	**0.015 (0.005)**[a]	**0.013 (0.005)**[a]	0.003 (0.005)	0.003 (0.005)	0.003 (0.004)	**0.012 (0.005)**[b]	**0.009 (0.005)**[c]	0.008 (0.005)
Manufacturing	-0.380 (0.260)	-0.254 (0.265)	0.220 (0.258)	**0.483 (0.258)**[c]	**0.646 (0.259)**[b]	**0.544 (0.273)**[b]	-0.364 (0.266)	-0.023 (0.313)
Services	**-1.397 (0.269)**[a]	**-0.735 (0.271)**[a]	**-0.916 (0.273)**[a]	-0.116 (0.267)	0.118 (0.262)	0.116 (0.277)	**-1.195 (0.284)**[a]	-0.260 (0.326)
Size (Log)	**-0.560 (0.266)**[b]	-0.335 (0.269)	-0.070 (0.268)	**0.566 (0.261)**[b]	0.441 (0.258)[c]	0.226 (0.277)	0.200 (0.290)	0.222 (0.330)
Exporter	-0.021 (0.229)	**0.518 (0.225)**[b]	**0.444 (0.234)**[c]	0.038 (0.228)	0.130 (0.223)	-0.184 (0.239)	-0.400 (0.264)	**0.528 (0.271)**[c]
Innovator	0.519 (0.212)	**0.495 (0.214)**[b]	0.296 (0.216)	-0.024 (0.210)	0.039 (0.208)	-0.335 (0.217)	-0.045 (0.224)	-0.067 (0.260)
R&D	-0.360 (0.235)	**-0.421 (0.234)**[c]	**-1.025 (0.261)**[a]	**-0.443 (0.231)**[c]	-0.140 (0.225)	**-0.526 (0.252)**[b]	**-0.700 (0.268)**[a]	-0.366 (0.301)
Training	**0.343 (0.202)**[c]	**0.551 (0.202)**[a]	0.001 (0.205)	0.230 (0.201)	**0.414 (0.195)**[b]	0.038 (0.207)	-0.101 (0.215)	0.136 (0.247)
Family Business	0.344 (0.215)	-0.168 (0.217)	0.040 (0.228)	0.687 (0.225)[a]	**0.538 (0.211)**[b]	**0.618 (0.232)**[a]	0.189 (0.243)	0.066 (0.274)
Gender	0.177 (0.285)	0.016 (0.293)	0.048 (0.300)	0.404 (0.300)	**0.626 (0.291)**[b]	**0.538 (0.318)**[c]	0.205 (0.318)	0.256 (0.383)
Age	-1.237)0.890)	**-1.796 (0.897)**[b]	0.515 (0.929)	-0.295 (0.889)	-0.096 (0.869)	0.664 (0.935)	**-1.964 (0.970)**[b]	-1.679 (1.110)
Postgrad/ Prof/ Degree/ 'A' Lvl	**-0.644 (0.253)**[b]	-0.043 (0.257)	-0.145 (0.262)	**-0.708 (0.262)**[a]	**-0.625 (0.248)**[b]	**-0.459 (0.270)**[c]	-0.204 (0.279)	**-0.625 (0.313)**[b]
Technical/ Voc.	-0.280 (0.254)	-0.043 (0.256)	0.135 (0.260)	0.214 (0.249)	0.173 (0.249)	0.358 (0.257)	0.169 (0.268)	-0.366 (0.316)
'O' Levels	**-0.553 (0.278)**[b]	-0.328 (0.286)	-0.245 (0.291)	0.251 (0.276)	0.000 (0.275)	0.044 (0.288)	-0.282 (0.298)	**-0.723 (0.348)**[b]
Conurbation	**-0.516 (0.238)**[b]	0.613 (0.243)[b]	-0.245 (0.239)	-0.365 (0.236)	0.059 (0.232)	-0.332 (0.245)	-0.185 (0.282)	**0.621 (0.300)**[b]
Large Town	**-0.792 (0.292)**[a]	-0.047 (0.304)	-0.266 (0.304)	0.121 (0.288)	0.363 (0.290)	-0.411 (0.308)	**-0.658 (0.320)**[b]	0.016 (0.393)
Log likelihood	-541.971	-527.644	-493.314	-537.578	-550.094	-497.946	-452.235	-347.714
Cut 1	-3.836 (1.573)	-2.987 (1.586)	0.530 (1.634)	0.556 (1.562)	0.980 (1.534)	2.042 (1.646)	-3.479 (1.715)	-1.121 (1.940)
Cut 2	-3.175 (1.571)	-2.453 (1.584)	1.574 (1.636)	1.363 (1.564)	1.540 (1.535)	2.808 (1.649)	-2.550 (1.710)	-0.298 (1.939)
Cut 3	-2.290 (1.567)	-1.697 (1.582)	2.873 (1.642)	2.492 (1.565)	2.449 (1.536)	3.739 (1.651)	-1.050 (1.712)	1.030 (1.946)

N=443.

[a] Significant at 1% level, [b] Significant at 5%, and [c] Significant at 10%.

Table 6.7: Estimates of an ordered logit model of the limitations encountered by owner-managers in achieving their business objectives over the last three years, by economic/regulatory factors

	High rate of inflation	High depreciation of the cedi	High tax and import duties	Registration / Licensing / Red tape	Corruption
Growth	0.004 (0.005)	0.006 (0.004)	0.004 (0.004)	**0.107 (0.004)[b]**	0.006 (0.005)
Manufacturing	-0.357 (0.252)	-0.044 (0.246)	**0.795 (0.251)[a]**	0.113 (0.262)	**-0.455 (0.252)[c]**
Services	**-0.507 (0.256)[b]**	-0.109 (0.252)	**0.776 (0.257)[a]**	0.260 (0.266)	-0.582 (0.261)
Size (Log)	-0.294 (0.252)	0.126 (0.250)	-0.006 (0.255)	-0.121 (0.269)	-0.018 (0.266)
Exporter	-0.030 (0.226)	-0.171 (0.219)	0.333 (0.229)	-0.151 (0.238)	-0.205 (0.236)
Innovator	-0.100 (0.206)	0.070 (0.202)	0.284 (0.204)	**0.450 (0.213)[b]**	0.174 (0.213)
R&D	-0.014 (0.225)	-0.304 (0.225)	-0.190 (0.222)	0.132 (0.234)	-0.290 (0.239)
Training	0.270 (0.194)	0.041 (0.190)	**0.338 (0.195)[c]**	**0.449 (0.203)[b]**	0.201 (0.201)
Family Business	0.067 (0.214)	0.109 (0.211)	-0.087 (0.212)	0.548 (0.234)	0.579 (0.228)
Gender	-0.396 (0.282)	-0.020 (0.279)	0.033 (0.283)	-0.066 (0.294)	-0.145 (0.285)
Age	-0.809 (0.878)	**-1.628 (0.857)[c]**	0.008 (0.852)	0.138 (0.915)	0.387 (0.914)
Postgrad/ Prof/ Degree/ 'A' Lvl	-0.179 (0.250)	-0.078 (0.247)	0.211 (0.248)	**0.570 (0.260)[b]**	0.105 (0.258)
Technical/ Voc.	-0.074 (0.250)	0.179 (0.250)	0.002 (0.246)	0.164 (0.260)	-0.056 (0.258)
'O' Levels	-0.184 (0.268)	0.106 (0.263)	-0.040 (0.266)	0.259 (0.276)	0.187 (0.281)
Conurbation	0.082 (0.226)	0.278 (0.224)	**1.023 (0.231)[a]**	**0.504 (0.241)[b]**	**0.494 (0.235)[b]**
Large Town	**-0.514 (0.281)[c]**	-0.441 (0.277)	0.370 (0.276)	0.069 (0.295)	-0.178 (0.296)
Log likelihood	-551.212	-584.703	-572.444	-493.285	-503 .173
Cut 1	-4.262 (1.551)	-4.124 (1.512)	-0.013 (1.492)	1.060 (1.621)	0.851 (1.605)
Cut 2	-3.212 (1.546)	-3.005 (1.507)	1.720 (1.495)	2.820 (1.627)	2.442 (1.608)
Cut 3	-1.564 (1.538)	-1.564 (1.501)	2.848 (1.497)	3.548 (1.630)	3.307 (1.614)

N=443.

[a] Significant at 1% level, [b] Significant at 5%, and [c] Significant at 10%.

Table 6.8: Estimates of an ordered logit model of the limitations encountered by owner-managers in achieving their business objectives over the last three years, by infrastructure and socio-cultural factors

	High cost of utility charges	Lack of industrial sites	High transport costs	Low quality of electricity / water supply	Poor telecommunication networks	Use of business resources to support family
Growth	**0.014 (0.004)[a]**	**0.010 (0.005)[b]**	**0.008 (0.004)[c]**	0.005 (0.004)	-0.005 (0.005)	**0.015 (0.005)[a]**
Manufacturing	**0.773 (0.254)[a]**	**1.100 (0.282)[a]**	-0.409 (0.243)	**1.093 (0.261)[a]**	0.390 (0.270)	-0.412 (0.256)
Services	**0.726 (0.258)[a]**	**0.661 (0.287)[b]**	-0.387 (0.250)	**0.802 (0.263)[a]**	**0.576 (0.275)[b]**	**-0.617 (0.260)[b]**
Size (Log)	**-0.828 (0.258)[a]**	-0.354 (0.270)	**-0.523 (0.256)[b]**	-0.081 (0.257)	0.020 (0.264)	**-0.979 (0.266)[a]**
Exporter	-0.247 (0.218)	-0.009 (0.230)	0.198 (0.222)	-0.288 (0.221)	-0.010 (0.231)	0.010 (0.231)
Innovator	**0.539 (0.203)[a]**	0.286 (0.212)	0.225 (0.201)	**0.562 (0.208)[a]**	-0.014 (0.211)	-0.249 (0.211)
R&D	0.040 (0.226)	**-0.417 (0.240)[c]**	0.152 (0.226)	**0.398 (0.225)[c]**	0.300 (0.228)	-0.239 (0.233)
Training	0.278 (0.189)	0.230 (0.200)	0.094 (0.191)	**0.510 (0.193)[a]**	**0.396 (0.201)[b]**	**0.513 (0.197)[a]**
Family Business	-0.046 (0.211)	0.405 (0.219)	**0.373 (0.209)[c]**	0.449 (0.219)	0.575 (0.226)	**0.036 (0.214)[b]**
Gender	-0.104 (0.285)	0.533 (0.260)	-0.224 (0.277)	**-0.594 (0.273)[b]**	-0.275 (0.286)	-0.110 (0.273)
Age	**1.681 (0.877)[c]**	0.053 (0.902)	-1.100 (0.872)	1.061 (0.857)	**1.655 (0.892)[c]**	**-1.968 (0.886)[b]**
Postgrad/ Prof/ Degree/ 'A' Lvl	0.154 (0.246)	**-0.682 (0.260)[a]**	-0.356 (0.243)	-0.010 (0.249)	**0.588 (0.261)[b]**	-0.193 (0.254)
Technical/ Voc.	-0.044 (0.245)	-0.210 (0.251)	0.287 (0.247)	-0.128 (0.250)	0.274 (0.261)	-0.193 (0.247)
'O' Levels	-0.256 (0.269)	**-0.581 (0.288)[b]**	-0.051 (0.272)	-0.418 (0.276)	0.455 (0.281)	-0.450 (0.281)
Conurbation	**0.427 (0.226)[c]**	**0.656 (0.245)[a]**	0.229 (0.226)	**0.401 (0.231)[c]**	-0.240 (0.240)	**-1.165 (0.229)[a]**
Large Town	0.053 (0.279)	0.315 (0.302)	-0.228 (0.276)	0.119 (0.287)	**-0.818 (0.298)[a]**	-0.053 (0.272)
Log likelihood	-580.279	-529.233	-581.532	-562.046	-508.268	-546.273
Cut 1	1.662 (1.546)	1.580 (1.588)	-3.743 (1.541)	2.365 (1.526)	3.479 (1.571)	-5.778 (1.577)
Cut 2	2.920 (1.551)	2.299 (1.589)	-2.529 (1.534)	3.752 (1.532)	4.928 (1.580)	-4.802 (1.568)
Cut 3	4.090 (1.557)	3.462 (1.594)	-0.861 (1.528)	5.002 (1.537)	5.962 (1.587)	-3430 (1.560)

N=443.

[a] Significant at 1% level, [b] Significant at 5%, and [c] Significant at 10%.